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UNITED STATES POSTAL SERVICE BUDGET

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON
POSTAL OPERATIONS AND SERVICES

AND THE

SUBCOMMITTEE ON
POSTAL PERSONNEL AND MODERNIZATION

OF THE

COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

MARCH 9, 1989

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UNITED STATES POSTAL SERVICE BUDGET

THURSDAY MARCH 9 1989

U.S. HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES AND SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION, COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, DC.

The subcommittees met jointly, pursuant to notice, at 10:20 a.m., in room 311, Cannon House Office Building, Hon. Mickey Leland (chairman of the subcommittee on Postal Operations and Services) presiding.

Mr. LELAND. Good morning. Welcome to this joint hearing of the subcommittees on Postal Operations and Services and Postal Personnel and Modernization.

The subject of our hearing this morning is the Bush Administration's proprosed budget as it affects the United States Postal Service.

The Bush budget contains some new twists for the Postal Service, but also rehashes some tired, old ideas that have never found any support in the past. Unfortunately, these new twists do not make any more sense than previous Reagan Administration budget proposals did.

If we were to implement the Bush budget, we would impose a staggering rate increase on non-profit organizations, charities, rural newspapers, libraries, religious organizations, veterans' organizations, and other preferred mailers.

We would trample on the integrity of the collective bargaining process by violating an agreement that was agreed to under bargaining conducted pursuant to the National Labor Relations Act. We would close some 7,000 rural post offices, thereby depriving those communities of the same level of service that other Americans have received.

We would shift billions of dollars of postal health insurance and retirement costs to postal rate payers in the form of higher stamp prices. We would cause the cancellation or deferral of construction and renovation of vitally needed facilities, and we would reduce the Postal Service's revenue from government mailings.

This is not a good budget proposal. Obviously, I feel very strongly about that. In fact, there is nothing in this proposal that I like. There is nothing in this proposal that anyone interested in good mail service can like.

Even the minority members of this committee have expressed serious reservations about the negative effects these proposals will have on our nation's postal system. They have taken this stance be-

cause they believe, too, and they can speak for themselves, I might add, under the able leadership of my good friend, Frank Horton, they have taken this stance because they believe strongly in the need to preserve universal postal service in this nation. And because they are true friends of postal employees and users.

I am proud to serve with them on this committee, and I am very encouraged that we must resist these proposals at all costs. And we will.

Since the Bush budget for the Postal Service is essentially the same as the one proposed by the Reagan Administration, I am convinced that the Bush Administration simply did not have enough time to evaluate fully the mail service needs of this nation.

Of course, none of this would be necessary if the Postal Service were not a part of the unified Federal budget. The Postal Service has calculated that the Federal deficit could be reduced by $2 billion in fiscal year 1990 if the Postal Service were off budget.

Clearly, our focus should be on removing the Postal Service from the unified Federal budget rather than wasting anymore time debating and discussing these unsound proposals.

I know George Bush to be a reasonable man, who is not wedded to any narrow ideological agendas. I remain hopeful and optimistic that we will be able to work with his administration to arrive at a sound approach for treatment of the Postal Service in the federal budget.

Our witnesses today are representatives of postal employee organizations and major mail users. These witnesses are experts on our postal system, and they would be deeply effected by any of these proposed changes.

Our first panel is composed of Moe Biller, president of the American Postal Workers Union, and Vince Sombrotto, president of the National Association of Letter Carriers.

Both of these gentlemen and their organizations have made tremendous contributions toward maintaining a strong universal postal system that serves all Americans equally and at the same rates.

The two are very dear friends of all of the members of these postal subcommittees that are here today.

This committee appreciates their past, present and future efforts on behalf of the people of this country, as well as the people who they represent in the Postal Service.

Let me also acknowledge and with unanimous consent take for the record the full statement of the chairman of the Postal Personnel and Modernization Subcommittee, to be entered here at this juncture.

[The statement follows:]

STATEMENT OF CHAIRMAN FRANK MCCLOSKEY

Good morning. Today's hearing will focus on the President's budget proposals pertaining to the U.S. Postal Service for fiscal year 1990. I want to welcome all of our distinguished witnesses and thank them for taking time out of their busy schedules to appear before us today.

President Reagan's budget proposals for fiscal year 1990, if enacted, would adversely affect the Postal Service and its employees. It is my understanding that President Bush's recommendations do not alter his predecessor's proposals.

The administration recommends abrogating collective bargaining agreements by eliminating, through legislation, an estimated 4.5 percent 1990 pay raise negotiated by the Postal Service and its unions. The legislation would instead provide a meager 2 percent raise.

The budget also recommends reduction of the revenue forgone subsidy by $481 million which is provided to nonprofit organizations, libraries, rural newspapers and other "preferred mailers." This reduction essentially amounts to elimination of the subsidy and provides a mere $24 million for rates for the blind, physically handicapped and overseas voters.

In addition, the administration budget recommends reducing fiscal year 1990 Postal Service capital commitments by $823 million, which would be extremely detrimental to the Postal Service's capital improvement program. The Postal Service's capital program for facilities and modernization has already been decimated due to cuts required over the past 2 years by budget reconciliation.

The administration's budget also recommends contracting out retail operations now provided by 7,000 rural post offices which would result in the closing of these 7,000 post offices. As I have stated previously, the post office is the heart of the community in rural areas where people come to obtain news about area residents and is almost considered the de facto seat of government.

The Eighth Congressional District of Indiana, which I represent, is comprised of many such rural areas and these communities could lose their identities and be deprived of many essential services should their post offices be closed.

I firmly believe that all of these proposals are meant to further the expressed goal of the previous administration—privatization. These budget proposals would result in fragmentation within the Postal Service and would most likely result in impaired service to the general mailing public. I believe these proposals are part of a gradual plan to, piece by piece, "privatize" the Postal Service.

I and other members of the full committee have repeatedly stated that we are opposed to privatization. This includes privatization via the back door.

Although I am not pleased with any of the proposals in this budget, I would like to again express my sincere appreciation to our witnesses today. I am pleased to note that the Post Office and Civil Service Committee has resoundingly rejected these proposals in its recommendations to the House Budget Committee.

Mr. LELAND. Let me now turn to my good friend, the vice chairman of the Subcommittee on Postal Operations and Services, Mr. Horton, the gentleman from New York.

Mr. HORTON. Thank you, Mr. Chairman. I want to commend you for holding these hearings. I want you to know that it was important to me to be the ranking member on this subcommittee. I enjoyed working with you in the other Congresses, and I look forward to working with you in this Congress.

This is the first time I have had a chance to put on the record my admiration for your leadership of this Postal Operations subcommittee. I think you have done an excellent job with it, and I think that the Postal Service and the unions have benefitted from your leadership. And I am very proud to serve with you on this committee.

I want to join with you in welcoming all of our witnesses this morning, and particularly, Vince Sombrotto, the president of the Letter Carriers. They have a big sign on their building, and I saw it again this morning, 100th year.

And I certainly want to congratulate you and the letter carriers for celebrating your centennial year. And congratulations on your leadership of the letter carriers and the fine job you do day in and day out.

I also want to join with you, Mr. Chairman, in welcoming Moe Biller. I do not think the postal workers could have a better leader than Moe. He has some pretty capable right hands there that are going to be with him this morning at the table. I want to congratulate you, Moe, on the job that you do in leading the postal workers.

Mr. Chairman, I am also concerned about a number of aspects of the Administration's budget. And I hope, maybe through your efforts and my efforts, we can persuade Mr. Bush and some of his folks that they take a different look at this budget. There are some proposals that if they occurred, would be disastrous as far as the Postal Service and its personnel are concerned.

The budget proposes that all funding for nonprofit and other preferred-rate mail be eliminated except for overseas voter mail and free-for-the-blind mail.

I am a supporter, as you are, of the congressional appropriations for nonprofit mailers, which is known as revenue foregone. At the present time, eight types of organizations qualify for preferred postal rates: religious, educational, scientific, philanthropic, agricultural, labor, veterans' and fraternal. None of them should be changed.

Revenue foregone is the money provided by Congress to the Postal Service to make up the differences between the preferred rates and the full postal rate.

I think there is a need for that subsidization. When we look at the budget, I know we have to look in terms of cuts, but we want to encourage this type of mailing. And we certainly can justify those kind of expenditures.

I am adamantly opposed to changing or reducing the present system of reimbursement provided to the Postal Service. I am also concerned about the Administration's proposal to eliminate the lump-sum retirement option and increase the cost of health benefits for workers.

Changing the formula for health benefits coverage is an especially poor idea in light of the fact that one of the main priorities of this committee is to reform the entire federal employee health benefit program.

The President's budget also includes a 2 percent pay increase for Federal workers and a freeze in cost of living adjustments for retirees this year. The President's budget then reduces the COLAs in the out years to 1 percent less than the inflation rate.

Mr. Chairman, it seems like every time we get a problem with the budget, they take it out on retirees or on the federal employees. It is time for us to really lay down the gauntlet and fight. We cannot justify not giving these retirees their COLAs. We cannot justify cutting back on these health benefits. As a matter of fact, one of the things that I have come across as I have been having office hours out in my district is this catastrophic illness problem. More and more federal employees are concerned about it.

We are talking about not giving retirees the COLAs for which they are entitled. If any of them get them, they all should get them. I certainly feel that retirees should get their COLAs.

I am also concerned about lump-sum payment. As you know, when we worked on the conference, retirees were supposed to get the lump-sum payment in one year. One of the deals that was made allowed retirees to get 60 percent the first year and 40 percent the second year. Since interest is paid on the second year, I do not know how we made any savings. It blew smoke, as far as I am concerned.

When this provision expires, I would like to see it go back to what it was, the whole lump sum option. If they take it actuarially, it will probably save the government money if they take a lump-sum payment.

I am concerned about those proposals and the impact it will have on our federal workforce and on the Postal Service. When a person is retired, we should not kick him. I think that is what we are doing when we do not give these retirees COLAs.

Part of the problem facing the Postal Service is due to being included in the unified Federal budget.

The Postmaster General is for it, the management is for it. The people, the letter carriers, the workers, the clerks, everybody is for taking them off budget.

As I think everybody in this room knows, the principal sponsor and the person who introduced the bill this year is our chairman, Mr. Leland. And I am one of the original co-sponsors. Every member on this committee has sponsored that bill. As far as I am concerned, it should be one of the first measures we take up. We must get it passed.

I was very happy to hear you say yesterday that, I think, there were 254 members that have——

Mr. LELAND. We said 230-something the other day, and today we are up to 242. So we are moving right along. That is enough to pass it.

Mr. HORTON. We want to get enough cosponsors so that we will have enough to override a veto. Unfortunately, the Senate, as you know, in the last Congress, just sat on it. And I hope that this time we can get them to get it passed.

I would like to see it passed in this first session so that we do not have any more problems with the budget. Because if we do not, we are going to get another hit. And the more hits we get, the more opportunity they have to press for privatization.

The worse thing that could happen to the Postal Service is privatization.

Well, I do not want to make any more speeches. I just want to welcome the witnesses here.

I think most of what they have to say is right along the lines of what I have already said. But I want them to know that we are with you, and we will do everything we can to be helpful.

So, thank you for your testimony.

Mr. LELAND. Mr. Biller.

STATEMENT OF MOE BILLER, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL-CIO, ACCOMPANIED BY PATRICK NILAN, LEGISLATIVE DIRECTOR, AMERICAN POSTAL WORKERS UNION; AND ROY BRAUNSTEIN, LEGISLATIVE AIDE, AMERICAN POSTAL WORKERS UNION

Mr. BILLER. Chairman Leland, Chairman McCloskey, members of the committee, my name is Moe Biller, president of the American Postal Workers Union, AFL-CIO, representing over 365,000 active and retired postal workers nationwide.

I am pleased to appear before the committee this morning to comment on the impact of the President's fiscal year 1990 budget

proposals on the United States Postal Service and postal employees and retirees.

On January 9, 1989, former President Ronald Reagan, transmitted his final budget to Congress; and with it, transmitted his administration's final wish list of recommended ways of achieving substantial deficit reduction at the expense of the Postal Service, its employees and retirees. Included in the final Reagan budget were proposals to: (1) Freeze retirement cost-of-living adjustments (COLAs) in the Fiscal Year beginning October 1, 1989, and reduce COLAs in the outyears to one percent less than the inflation rate (CPI minus one); (2) Transfer the full cost of postal retiree COLAs to the U.S. Postal Service; (3) Repeal the lump-sum option on retirement contributions; (4) Reduce the government's contribution to the Federal Employees Health Benefits Program by revising the formula on which the contribution is based from the average of the six largest plans to a weighted average of all of the participating health plans; (5) Transfer the full cost of the government's share of annuitants and survivors health benefits costs to the Postal Service; and (6) Cap negotiated Postal wages at two percent.

Although President Bush purported that his revised budget would help initiate a kinder and gentler America, the budget plan which he transmitted to the Congress on February 9, 1989, was anything but that for the Postal Service, its employees and retirees.

While not embracing fully the Reagan budget proposals, the Bush budget borrows several of the Reagan initiatives to freeze and reduce COLA benefits, making them diet-COLA, repealed the lump-sum option and revised the federal employee health benefits contribution formula.

We have already testified in opposition to the Administration's proposals on postal and federal workers' retirement and health benefits, and will not repeat that testimony here.

We will limit our testimony here to the impact of the budget revisions proposed by President Bush on the postal workforce and the legacy left to the Postal Service by Ronald Reagan.

The Black Box: The budget which President George Bush transmitted to Congress last month, has already become infamous for its lack of specifics and detail. Except in a few instances, the budget is full of shadow. Among the most shadowy components of the budget is the mysterious black box. A category of programs, which, in the words of the director of the Office of Management and Budget, "is by definition a category that, from our perspective, is not that important."

The not as important programs in this black box, which include the Postal Service appropriation for revenue foregone, the nonprofit mail subsidy and the general Postal Service fund would, according to the President's budget submission, be frozen at the fiscal year 1989 funding levels in fiscal year 1990.

Estimates by the House Budget Committee are that the Postal Service would lose $2 billion under this proposal. I need not remind this committee that in December 1987, the Administration negotiated a two-year deficit reduction agreement, which required the Postal Service to reduce its operating and capital investment budget by $1.245 billion in fiscal year 1988 and 1989.

In the chaos which resulted, the Postal Service was forced to curtail window hours, retail services, mail collection and processing to achieve the mandated reductions in operations and to cancel or suspend 74 percent of the planned capital improvement projects in 1988 and 50 percent in 1989.

The effects of the 1987 reconciliation action are still being felt. And the new administration now proposes to impose another $2 billion in deficit reduction on the Postal Service. Yet, the Administration's budget does not stipulate how this deficit reduction is to be achieved.

Reagan's final budget, which clearly does not become his final solution. The final budget which former President Reagan transmitted to Congress contained several suggested ways to achieve deficit reduction at the Postal Service's expense, which, while not specifically included in the budget revisions submitted by President Bush, were not specifically excluded.

The first was a proposal that the Postal Service cap negotiated postal wages at 2 percent in the coming fiscal year. Now that is interesting, because the foundations of our society are that contracts are inviolate.

Another was to transfer the full cost of postal retiree cost of living adjustments to the Postal Service. And a third was to transfer the full cost of the government's share of annuitants and survivors' health benefit costs to the Postal Service.

Throughout the Reagan years, the Administration repeatedly used the budget process to subvert the independence of the Postal Service, achieving success with the adoption of the fiscal year 1988 reconciliation bill. In a final strike before leaving office, Reagan proposed that Congress and the Executive Branch inject themselves into the Postal Service collective bargaining process and legislate a cap on postal wages.

We believed that the 1987 reconciliation action was the most blatant attempt we would witness by the past administration to micromanage the Postal Service, but the proposal to cap negotiated postal wages was even more blatant. We view it as a direct threat to the autonomy of the Postal Service, and by far the most serious of the proposals contained in the former president's budget.

The Reagan budget also proposed, as it had proposed in several previous year budget submissions, the shift to the Postal Service the full normal cost of retirement COLA adjustment.

The Postal Service has indicated that if it were returned to off-budget status, it would be willing to assume responsibility for the prospective COLA increases for new retirees provided the cost of the benefits is apportioned between the Postal Service and other government service, and amortized over the retiree's life expectancy.

The Reagan budget also proposed that the Postal Service assume the employer cost of postal annuitants and survivors' health benefit premiums. The Postal Service is currently required under the provisions of the Omnibus Budget Reconciliation Act of 1985 to pay the employer cost of health insurance for all postal retirees after September 30, 1986, prospectively.

We believe that adding additional cost to the Postal Service for health benefits for retirees would, in light of the additional finan-

cial burdens imposed by the fiscal year 1988 Reconciliation Act, be detrimental to the service.

Finally, I would like to comment on the proposals in the Bush budget to freeze the Postal Service's revenue foregone appropriation at the current spending devel of $436 million. This proposal, if enacted, would result in a $23 million reduction in the funding level, which the Postal Service has estimated is necessary to maintain all free and reduced-rate mail at the authorized level in fiscal year 1990.

And that does not go into the till of the Postal Service, it goes to those using it. The provision of free and reduced-rate postage to special categories of mail users is consistent with the Postal Service's public service responsibilities. And we would hope that the Congress would approve the $459 million requested for thas purpose.

In conclusion, let me say that the budget proposed by President Bush contains many questions about the President's intentions for the Postal Service. We hope that this committee and the Congress will carefully examine the Administration's intentions before agreeing to any deficit reduction package, which the Administration may propose.

Thank you for giving me the opportunity to appear. I will be pleased to respond to your questions. And I ask that the full testimony be included in the record. And I want to express my appreciation again to the entire committee, because you have all sponsored off-budget legislation.

And I, too, would like to congratulate Mr. Sombrotto and the National Association of Letter Carriers. One hundred years is a long time, ask me, I have almost lived that.

Thank you. [Laughter.]

[The prepared statement of Mr. Biller follows:]

Mr. LELAND. Mr. Biller, why don't you, for the purpose of the record, introduce the gentlemen to your right.

Mr. BILLER. On my right is Patrick Nilan, legislative director of the American Postal Workers Union; and to his right is Roy Braunstein, legislative aid. I am sorry, I left them off for a moment. Mr. Nilan has been around here a quarter of a century.

Mr. LELAND. Mr. Sombrotto.

STATEMENT OF VINCENT SOMBROTTO, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, ACCOMPANIED BY FRANK CONNORS, EXECUTIVE VICE PRESIDENT; AND GEORGE GOULD, ASSISTANT TO THE PRESIDENT FOR LEGISLATION AND POLITICAL ACTION

Mr. SOMBROTTO. Thank you very much, Mr. Chairman.

My name is Vincent R. Sombrotto, president of the National Association of Letter Carriers (AFL–CIO).

And joining me this morning is, to my left, the executive vice president, Frank Connors and the assistant to the president for legislation and political action, George Gould. The NALC represents over 340,000 active and retired city letter carriers.

I would like to submit my entire statement for the record. And I summarize it now before this committee.

Thank you for holding these hearings on the Bush Administration budget proposal for the United States Postal Service.

During the Reagan presidency, our members faced repeated assaults on every aspect of their lives: retirement, health, job security via privatization and pay. No other segment of society received worse budgetary and verbal pummeling than the postal sector.

We have a new president, who I hope will make good on his promise for a kinder, gentler nation for all Americans. Now, we find that Budget Director Richard Darman added some small print saying, "except for Postal Service and its workforce."

The small print has been revealed. I have obtained a copy of the official Cabinet memorandum from Mr. Darman to heads of departments and agencies. And here it is. And I would like to submit it just for the record with my testimony.

Mr. LELAND. Without objection.

Mr. SOMBROTTO. It says, as discussed at the Cabinet meeting, the Reagan budget proposals for items within the residual category are to be treated as if they were the Bush Administration proposals for purposes of starting the budget process with the Congress.

The memo is clear: there is no kinder and gentler budget. It is rhetoric. The rhetoric as designed to cut you out of the process. It is an attempt to go over our heads in trying to convince our constituencies that there is a new dawn.

Let us be clear, as in the James Miller years, privatization is on the agenda.

Mr. Chairman, there is nothing kind about threatening to contract out our jobs, hire more casuals, close more rural post offices, and eliminate revenue foregone. There is nothing gentle about restricting the Postal Service to aging equipment and old facilities.

There is nothing new about using trickery to disguise billions more in postal cuts, which Darman tried to keep hidden. And there are no points of light in impoverishing retirees and reducing wages of current employees.

In fact, there is a new point of darkness in this budget. It as the Reagan-authored threat to violate the collective bargaining agreement and reduce pay increases to 2 percent. It is a sinister attempt to subvert the 1970 reorganization and establish Executive Branch political primacy over postal business.

Further, it goes against the stated policy of the Bush Administration. I heard Transportation Secretary Skinner testify before a House committee on Tuesday. He flatly stated that the Bush Administration does not believe that the government should interfere with collective bargaining. He said that in order for the free market to work its will, collective bargaining agreements should be upheld.

I would add that enforcing the Reagan proposal would require Congress to break its 1970 pledge to postal workers, rewrite the Postal Reorganization Act, and resume a role of day-to-day postal decision making.

I assume that Secretary Skinner spoke for the President and there is no chance of a double standard when dealing with the Postal Service.

The Reagan wage cut proposal is a stunt that a union-buster like Frank Lorenzo would pull, but entirely unworthy of President Bush.

In such poisoned waters, Director Darman's efforts to reach out to Congress for an acceptable budget are trickery. His objective is another budget summit without your participation. Everything he does is maneuvering toward that goal: a budget that contains a black hole and unusable statistics, shifting targets and don't-pin-us-down remarks, rosy predictions of low interest rates and inflation rates.

Darman plans to make a back-room offer you cannot refuse. He will say, we have got to cut a few billion more from the Postal Service because we have already cut the fat out of other programs. He will ignore the fact that our bones have been picked clean. Darman will take a little from SDI, and take billions from the United States Postal Service, its employees and retirees and rate payers.

He will add a little to education and seal the deal behind closed doors. He will take the credit and no one takes the blame. And he will have moved this country another step closer to privatization of postal service.

It is the James Miller plan of chipping away at the Postal Service in order to achieve privatization. As Yogi Berra said, "it's deja vu all over again."

Mr. HORTON. Yogi said that?

Mr. SOMBROTTO. I once asked Yogi about all of the statements that he made and he said, did I make them, I really don't know. [Laughter.]

The previous president, intent on pursuing his own agenda, violated the constitutional mandate for separation of powers when the Executive sat down with a select group of congressional leaders and wrote a budget. Congress played into the change.

The result was the 1987 Omnibus Reconciliation Act. It was developed without significant consultation with these subcommittees of the full committee. Agriculture, Defense, Transportation and others were involved, but the Postal Service was excluded. We were presented with a house of cards and told to take our lumps to keep the package from unravelling.

The summit members lacked specific knowledge in our area, but that did not stop them. They made decisions which had far-reaching, devastating effects: billions of dollars in cuts for the Postal Service, closure of postal facilities, delayed modernization, and costly project stoppages.

I urge you to be involved in every step of the process. The leadership must know that if there is a closed-door session, you must be in the room. If a summit makes decisions concerning our members, you need to be there to stop further cuts. Keep us involved in every aspect of the process. The alternative is catastrophic for both our members and your constituents.

Thank you. And I will be glad to answer any questions that you may have.

[The statement of Vincent Sombrotto and atachments follow:]

VINCENT R. SOMBROTTO, PRESIDENT

NATIONAL ASSOCIATION OF LETTER CARRIERS

MR. CHAIRMAN. MY NAME IS VINCENT R. SOMBROTTO, PRESIDENT OF THE NATIONAL ASSOCIATION OF LETTER CARRIERS. THE NALC REPRESENTS OVER 340,000 ACTIVE AND RETIRED CITY LETTER CARRIERS. I WOULD LIKE TO SUBMIT MY ENTIRE STATEMENT FOR THE RECORD, AND SUMMARIZE IT BEFORE THIS COMMITTEE.

THANK YOU FOR HOLDING THESE HEARINGS ON PRESIDENT BUSH'S BUDGET PROPOSALS FOR THE US POSTAL SERVICE. DURING THE REAGAN PRESIDENCY, OUR MEMBERS WERE FACED WITH REPEATED ASSAULTS ON EVERY ASPECT OF THEIR LIVES: RETIREMENT, HEALTH, JOB SECURITY VIA PRIVATIZATION, AND PAY. NO OTHER SEGMENT OF SOCIETY RECEIVED WORSE BUDGETARY AND VERBAL PUMMELING THAN THE POSTAL SECTOR.

WE HAVE A NEW PRESIDENT, WHO I HOPE WILL MAKE GOOD ON THE PROMISE FOR A "KINDER AND GENTLER" NATION FOR ALL AMERICANS. NOW WE FIND OUT THAT BUDGET DIRECTOR RICHARD DARMAN ADDED SOME SMALL PRINT SAYING, "EXCEPT FOR THE POSTAL SERVICE AND ITS WORK-FORCE."

THE SMALL PRINT HAS BEEN REVEALED. I OBTAINED A COPY OF AN OFFICIAL CABINET MEMORANDUM FROM MR. DARMAN TO "HEADS OF DEPARTMENTS AND AGENCIES." IT SAYS, "AS DISCUSSED IN THE CABINET MEETING ... THE REAGAN BUDGET PROPOSALS FOR ITEMS WITHIN THE RESIDUAL CATEGORY ARE TO BE TREATED AS IF THEY WERE THE BUSH ADMINISTRATION PROPOSALS FOR PURPOSES OF STARTING THE BUDGET PROCESS WITH THE CONGRESS."

THIS MEMO IS CLEAR: THERE IS NO "KINDER, GENTLER" BUDGET.

IT IS RHETORIC.

THE RHETORIC IS DESIGNED TO CUT YOU OUT OF THE PROCESS. IT IS AN ATTEMPT TO GO OVER OUR HEADS IN TRYING TO CONVINCE OUR CONSTITUENCIES THAT THERE'S A NEW DAWN. LET US BE CLEAR: AS IN THE JAMES MILLER YEARS, PRIVATIZATION IS ON THE AGENDA.

MR. CHAIRMAN, THERE IS NOTHING KIND ABOUT THREATENING TO CONTRACT OUT OUR JOBS, HIRE MORE CASUALS, CLOSE RURAL POST OFFICES AND ELIMINATE REVENUE FORGONE.

THERE IS NOTHING GENTLE ABOUT RESTRICTING THE POSTAL SERVICE TO AGING EQUIPMENT AND OLD FACILITIES.

THERE IS NOTHING NEW ABOUT USING TRICKERY TO DISGUISE BILLIONS MORE IN POSTAL CUTS, WHICH DARMAN TRIED TO KEEP HIDDEN.

THERE ARE NO POINTS OF LIGHT IN IMPOVERISHING RETIREES AND REDUCING WAGES OF CURRENT EMPLOYEES.

IN FACT, THERE IS A NEW POINT OF DARKNESS IN THIS BUDGET. IT IS THE THREAT TO VIOLATE THE COLLECTIVE BARGAINING AGREEMENT AND REDUCE PAY INCREASES TO 2%. IT IS A SINISTER ATTEMPT TO SUBVERT THE 1970 REORGANIZATION AND ESTABLISH EXECUTIVE BRANCH POLITICAL PRIMACY OVER POSTAL BUSINESS. YOU HAVE GOT TO MAKE THIS ADMINISTRATION UNDERSTAND THE FOLLY OF ITS WAYS. THE PROPOSAL IS A STUNT THAT A UNION-BUSTER LIKE FRANK LORENZO WOULD PULL, BUT ENTIRELY UNWORTHY OF PRESIDENT BUSH.

IN SUCH POISONED WATERS, DIRECTOR DARMAN'S EFFORTS TO REACH OUT TO CONGRESS FOR AN ACCEPTABLE BUDGET ARE TRICKERY. HIS OBJECTIVE IS ANOTHER BUDGET SUMMIT -- WITHOUT YOUR

PARTICIPATION. EVERYTHING HE DOES IS MANEUVERING TOWARD THAT GOAL: A BUDGET THAT CONTAINS A "BLACK HOLE" AND UNUSABLE STATISTICS; SHIFTING TARGETS AND "DON'T PIN US DOWN" REMARKS; ROSY PREDICTIONS OF LOW INTEREST AND INFLATION RATES.

DARMAN PLANS TO MAKE A BACK-ROOM "OFFER YOU CAN'T REFUSE". HE'LL SAY WE'VE GOT TO CUT A FEW BILLION MORE FROM THE POSTAL SERVICE BECAUSE WE'VE ALREADY CUT THE FAT IN OTHER PROGRAMS. HE'LL IGNORE THE FACT THAT OUR BONES HAVE BEEN PICKED CLEAN. DARMAN WILL TAKE A LITTLE FROM SDI, AND TAKE BILLIONS FROM THE USPS, ITS EMPLOYEES AND RETIREES, AND RATEPAYERS. HE'LL ADD A LITTLE TO EDUCATION AND SEAL THE DEAL BEHIND CLOSED DOORS. HE'LL TAKE THE CREDIT AND NO ONE TAKES THE BLAME. AND HE WILL HAVE MOVED THIS COUNTRY ANOTHER STEP CLOSER TO PRIVATIZATION OF POSTAL SERVICE. IT IS THE JAMES MILLER PLAN OF "CHIPPING AWAY" AT THE POSTAL SERVICE IN ORDER TO ACHIEVE PRIVATIZATION. AS YOGI BERRA SAID, "IT'S DEJA VU ALL OVER AGAIN."

THE PREVIOUS PRESIDENT, INTENT ON PURSUING HIS OWN AGENDA, VIOLATED THE CONSTITUTIONAL MANDATE FOR SEPARATION OF POWERS WHEN THE EXECUTIVE SAT DOWN WITH A SELECT GROUP OF CONGRESSIONAL LEADERS AND WROTE A BUDGET. CONGRESS PLAYED INTO THE CHANGE. THE RESULT WAS THE 1987 OMNIBUS RECONCILIATION ACT. IT WAS DEVELOPED WITHOUT SIGNIFICANT CONSULTATION WITH THESE SUBCOMMITTEES OR THE FULL COMMITTEE. AGRICULTURE, DEFENSE, TRANSPORTATION AND OTHERS WERE INVOLVED, BUT THE POSTAL SERVICE WAS EXCLUDED. WE WERE PRESENTED WITH A HOUSE OF CARDS, AND TOLD TO TAKE OUR LUMPS TO "KEEP THE PACKAGE FROM

UNRAVELING."

THE SUMMIT MEMBERS LACKED SPECIFIC KNOWLEDGE IN OUR AREA BUT THAT DIDN'T STOP THEM. THEY MADE DECISIONS WHICH HAD FAR-REACHING, DEVASTATING EFFECTS: BILLIONS OF DOLLARS IN CUTS FOR THE POSTAL SERVICE, CLOSURE OF POSTAL FACILITIES, DELAYED MODERNIZATION AND COSTLY PROJECT STOPPAGES.

I URGE YOU TO BE INVOLVED IN EVERY STEP OF THE PROCESS. THE LEADERSHIP MUST KNOW THAT IF THERE IS A CLOSED-DOOR SESSION, YOU MUST BE IN THE ROOM. IF A SUMMIT MAKES DECISIONS CONCERNING OUR MEMBERS, YOU NEED TO BE THERE TO STOP FURTHER CUTS.

KEEP US INVOLVED IN EVERY ASPECT OF THIS PROCESS. THE ALTERNATIVE IS CATASTROPHIC FOR BOTH OUR MEMBERS AND YOUR CONSTITUENTS.

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THERE ARE OTHER PRESIDENTIAL PROPOSALS, SUCH AS ELIMINATING REVENUE FORGONE. REVENUE FORGONE HELPS SCHOOLS, LIBRARIES AND TEACHER ORGANIZATIONS. REVENUE FORGONE HAS BEEN DEEMED SOCIALLY NECESSARY, AND FOR THE GOOD OF ALL PEOPLE. IT IS A SERVICE FOR WHICH THE POSTAL SERVICE UNDERWRITES THE COST AND GETS REIMBURSED BY CONGRESS. WE FACE THE RIDICULOUS SPECTACLE OF THE "EDUCATION PRESIDENT" CUTTING THE FUNDS WHICH KEEP THE EDUCATIONAL INSTITUTIONS SOLVENT! I HOPE THAT IT IS ONLY THE NEWNESS OF MR. DARMAN WHICH LEADS TO SUCH IGNORANCE.

FAR MORE INSIDIOUS IS STRANGLING THE POSTAL BUDGET WITH CURTAILED CAPITAL EXPENDITURES, HIRING MORE CASUALS,

CONTRACTING OUT RETAIL OPERATIONS, CLOSING RURAL POST OFFICES AND SHIFTING BILLIONS OF DOLLARS OF HEALTH AND RETIREMENT COSTS TO THE USPS. LET'S BE HONEST: THEY ARE THINLY-VEILED PRIVATIZATION ATTEMPTS.

MR. DARMAN IS PROVING TO BE MORE DEVIOUS THAN HIS PREDECESSOR. BUT LIKE JAMES MILLER, HE IS WILLING TO SACRIFICE THE HIGH STANDARDS OF POSTAL SERVICE FOR SHORT TERM, SMOKE-AND-MIRRORS GAIN. WE NEED TO PASS CHAIRMAN LELAND'S OFF-BUDGET BILL TO PROTECT THE POSTAL SERVICE FROM THIS SUBTERFUGE.

IN HIS STATE OF THE UNION ADDRESS PRESIDENT BUSH PROCLAIMED, "WE HAVE A MORAL CONTRACT WITH OUR SENIOR CITIZENS." I WELCOMED HIS REMARKS. THEY ECHOED STATEMENTS MANY OF US HAVE MADE FOR THE PAST EIGHT YEARS.

BUT HIS GRANDIOSE STATEMENT WAS POLITICALLY EXPEDIENT AND LIMITED TO SOCIAL SECURITY RECIPIENTS. THE BUDGET PROPOSES CUTS WHICH ROB CIVIL SERVICE RETIREES BY ELIMINATING RETIREE COLAS IN 1990, REDUCING FUTURE COLAS AND ELIMINATING THE LUMP SUM. THIS IS UNACCEPTABLE. THE AVERAGE RETIRED LETTER CARRIER RECEIVES AN ANNUITY OF $13,425 PER YEAR <u>WHICH, UNLIKE SOCIAL SECURITY, IS FULLY TAXABLE</u>. THE RETIREE MAY PAY FOR SPOUSE SURVIVOR, LIFE INSURANCE AND FEHBP COVERAGE, WHICH FURTHER REDUCE THE ANNUITY.

THE JUSTIFICATION FOR THE CPI MINUS ONE PERCENT FORMULA IS TO BRING CSRS COLAS IN LINE WITH FERS. MR. DARMAN, WHO IS GOOD AT INSERTING SMALL PRINT, HAS NOT READ THE BIG PRINT. CSRS AND FERS ARE NOT REMOTELY SIMILAR. FERS IS BASED ON SOCIAL

SECURITY, WHICH IS INDEXED, HAS A FULL COLA (SUPPORTED BY PRESIDENT BUSH) WHICH WAS NOT CUT IN GRAMM-RUDMAN, AND A THRIFT SAVINGS PLAN. CSRS HAS NO COMPARABLE THRIFT PLAN, IS FULLY TAXABLE AND HAS BEEN SINGLED OUT FOR CUTS.

THE LUMP SUM IS NECESSARY TO PARTIALLY RESTORE A BROKEN CONTRACT WHICH INCLUDED THE THREE-YEAR RECOVERY RULE. WE DESERVE EQUITY WITH SOCIAL SECURITY PENSIONERS.

MR. PRESIDENT, OUR RETIREES EARNED THEIR COLAS THE HARD WAY. POSTAL EMPLOYEES WORK DESPITE EXTREME CONDITIONS, AND DESERVE A DIGNIFIED RETIREMENT SIMILAR TO SOCIAL SECURITY RECIPIENTS. THE LOGIC THAT CONTRACTUAL MORALITY IS LESS IMPORTANT TO RETIRED LETTER CARRIERS THAN SOCIAL SECURITY PENSIONERS IS ABSURD. ARE OUR FOOD AND SHELTER COSTS LESS? ARE OUR HEALTH PROBLEMS DIFFERENT? THE RELEVANT MORAL STANDARD IS EQUITY FOR ALL RETIREES. THE DARMAN BUDGET REPRESENTS MORAL HYPOCRISY. IN THAT REGARD, THE NALC SUPPORTS CONGRESSWOMAN OAKAR'S BILL FOR COLA PROTECTION.

THE MEMBERS OF THIS COMMITTEE HAVE OFFERED AN EXCELLENT RESPONSE TO THE PRESIDENT IN YOUR "VIEWS AND RECOMMENDATIONS" SENT TO CHAIRMAN PANETTA. SEVERAL MEMBERS OF THE COMMITTEE'S MINORITY ALSO JOINED IN A LETTER TO PRESIDENT BUSH, POINTING OUT THAT, "PROPOSALS WHICH UNFAIRLY TREAT FEDERAL AND MILITARY WORKERS AND RETIREES MAY PRODUCE SHORT-TERM SAVINGS, BUT IN THE LONG RUN MAY COST THE NATION BY LOSING THE CONFIDENCE OF THOSE WHO HAVE SERVED AND WHO CONTINUE TO SERVE THIS COUNTRY."

I SUPPORT YOUR REASONED APPROACH AND LOOK FORWARD TO WORKING TOGETHER TO MAINTAIN THE QUALITY OF SERVICE WHICH POSTAL EMPLOYEES HAVE ACHIEVED

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

February 16, 1989

M-89-13

MEMORANDUM FOR HEADS OF DEPARTMENTS AND AGENCIES

FROM: Richard G. Darman
Director

SUBJECT: Guidance to Executive Branch Officials on the President's Budget Plan

The purpose of this memorandum is to provide you with guidance in preparing testimony and commenting publicly on the President's 1990 budget plan, presented to Congress February 9th.

Although the situation varies by agency, most of the budget is available in detail in the book entitled "Building a Better America." The initiatives, reforms, natural declines and special obligations discussed in the book are straightforward -- as is their rationale. They should be presented and defended directly. The President's budget plan does, however, contain a residual (nominal) freeze category where program detail is not presented in the book. This category is frozen in the aggregate at the 1989 dollar level for outlays.

Each agency should first calculate which portions of its 1990 budget are in the residual freeze category. This can readily be done by first identifying those items in the agency budget that are explicitly described in the book. The remainder of the agency budget is in the residual category.

Items in this residual freeze category -- as indeed the entire budget -- are subject to negotiations with Congress. The negotiations may lead to decisions in detail or, quite possibly, broad caps on various categories of spending.

As discussed in the Cabinet meeting, and pending the outcome of the negotiations, the Reagan budget proposals for items within the residual category are to be treated as if they were the Bush Administration proposals for purposes of starting the budget process with the Congress. The alternative of starting with a nominal freeze on each and every account is an analytical possibility -- but it is less practical at this stage than starting with the Reagan marks. However, any agency may propose to OMB a different mix of budget authority and outlays within its portion of the residual freeze category, provided the outlay total is not

changed. If such an alternative mix is approved, it may be presented to the Congress.

The President has identified his priorities -- about which we would expect to be firm. But in the residual freeze area, the intention is to be flexible. With respect to the residual freeze category, therefore, it is our clear expectation that there will be many cases in which an alternative mix will be judged desirable and/or necessary.

Please ensure that all appropriation and budget justification materials continue to be submitted to this office for review, as required by OMB Circular No. A-11 - Preparation and Submission of Annual Budget Estimates. Similarly, agency draft bills, testimony and reports to Congress on authorizing and other substantive legislation should be submitted in accordance with OMB Circular No. A-19 - Legislative Coordination and Clearance. In cases where necessary authorizing or substantive legislation has not yet been submitted to OMB, we ask that you please do so as soon as possible.

If you have questions concerning this memorandum, please have appropriate staff contact the budget examiner for your agency.

Thank you.

Mr. LELAND. Thank you, Mr. Sombrotto. And thank both of you for your testimony. And thank you for the support of our legislation on behalf of the American people.

The Administration proposal to limit a pay raise for postal employees would require the Postal Service to renege on legal obligations agreed to through collective bargaining under the provisions of the National Labor Relations Act.

Do you know of any precedent for this kind of action in either the public or the private sectors?

Mr. BILLER. I am really not aware of breaking a contract or, more than that, the actual basis for the postal reorganization was a two-fold one, that the Postal Service would be managed as a kind of business albeit on a nonprofit basis. And similarly, in return was collective bargaining for postal workers. And also, without the right to strike, which normally exists in a free society.

For the Congress or the President, at this point, to attempt to make a decision on capping any type of negotiations is a total destruction of the collective bargaining process. All it tells you is you are going in with a stacked deck and live by the rules of a stacked deck. That is not the tradition in this country.

Mr. SOMBROTTO. It is more than that. It is a question of the Postal Reorganization Act, which created the Postal Service as a quasi-independent corporation. We have entered into a collective bargaining agreement; it has approximately 18 months' duration. They cannot impose a 2 percent pay increase upon postal employees except by changing the law. They have to amend the Postal Reorganization.

But the insidiousness about the proposal is it is a way of using a bully pulpit on the negotiators for the Postal Service, to say to them that you cannot negotiate above a 2 percent increase in wages for postal employees.

Now, that is not collective bargaining, that is collective thuggery. And we are not going to stand for it.

Mr. LELAND. I thank both of you.

The Postal Service is conducting an experiment in Chicago in which certain postal services are being provided in Sears stores. I know that many postal employees are extremely concerned about this.

Will you please explain to us why this experiment is of concern to postal employees?

Mr. BILLER. Well, again, you know the road to Hell is paved with good intentions. We hear that the intentions are good, but I do not know what is good about using the people in Sears, giving them a fast training course for $4.50 or $5 an hour, whatever it is. And then the next move, it is called a pilot operation, the next move, I suspect, would be, if it is okay with the people doing that, the Postal Service, the possibility of going into some 600 Sears stores.

And then there is J. C. Penney, K-mart, Wal-Mart. You know you can privatize the whole government. And I think this is destructive. I think it is a very serious error. And certainly my union is unalterably opposed to this. The gimmick that it brings in business; it is actually convenience for Sears.

And I should have brought the material with me, because Sears had taken some bum raps in the business community, particularly

in Fortune Magazine for having themselves a hard time and not having managed it properly. And I think they are trying to ride the Postal Service's pony with the utilization of cheap labor.

Mr. LELAND. Mr. Sombrotto, do you have any feelings about that?

Mr. SOMBROTTO. Well, it is certainly something we are all concerned about. I would suggest that, from the letter carrier perspective, and that stands for both the city delivery carriers, I am sure, as my colleague from the rural carriers will testify later on, there is a much more dangerous situation that dwarfs using Sears. That is the highway contract routes, which management is now running a survey by postal inspectors. Now, all new territory, particularly in rural areas, will be contracted out to non-postal employees. Traditionally, there has been about one-half of 1 percent of all deliveries that have been done by contractors. And now we are up, at this present time, to 2 percent.

And this is a dangerous trend, because it means there are people that are not identified as postal employees that can be delivering mail in lieu of both the rural and city delivery carriers. So these kind of attempts to cut costs are, in our judgment, dangerous.

And what you depict as the Sears situation is something that we see as indicative of that trend. And we are very concerned about it.

Mr. BILLER. Mr. Chairman, if I may add. You know, privatization legislation has really gone nowhere in the Congress of the United States. However, incursions into the postal process by management's activities can be, as I say, far more serious than just Sears and the retail services, because particularly under attack from the privateers, who will continue to tell you that government is inefficient and so on, I think, whatever our limitations, we are obviously the most efficient government on this universe, parcel post is now 93 percent in the hands of United Parcel Service, which is consequently a monopoly, a private monopoly.

There is nothing to prevent them from saying, well, we are going to spin this one off, just as is done in the private sector. After that, just as Vinnie pointed out, you have got your highway post office, or your rural areas, and then attacks have been made on Third Class Mail also, so that the Postal Service could well, even without legislation, become the deliverer of mail of last resort.

And I think that is dangerous for the country, because, notwithstanding the introduction of the information age, the mail and the Postal Service have more than doubled within the last 18 years since the Postal Reorganization Act, has been a vital connecting factor in the communication apparatus of this country. And that is what we can destroy with it.

Mr. LELAND. Thank you.

The Postmaster General has announced a new three-part agenda for the Postal Service. That agenda calls for extending the intervals between rate increases, providing the best possible service to the American people, and improving relations between postal employees and management.

It sounds good; do you think it can be accomplished? And if so, what will it take?

Let's start with Mr. Sombrotto first.

Mr. SOMBROTTO. Well, of course, we are all committed to that proposition, and we encourage it. We do not want to see postage rates go up.

We are working very hard to increase productivity within the Postal Service so we can minimize or stretch out the periods of time when it is necessary to raise postage rates. We want to be more effective, we want to be more efficient. That is a goal that we all subscribe to.

In terms of the question of labor relations, my union is constantly involved in processes designed to create an environment for better labor relations; to try to create a safer, more congenial, more tranquil workplace. We think that is important. It is required for those that work everyday in the Postal Service to do the best possible job, which leads to, as a result, a better environment, increasing productivity.

It is a win-win situation when we can cooperate with each other in a way that respects the humanity and the dignity of all workers. And that includes supervisors and all other people in the Postal Service. So we are committed to those propositions, and we think that if management is as committed as we are, and we trust that they are, that we will achieve these goals by working together.

Mr. LELAND. Is there any evidence that that is happening, that management is looking more to developing these kinds of relations?

Mr. SOMBROTTO. Well, in our case, they certainly have. We have reduced grievances and the kind of animosity and confrontations that we have experienced over the years. We have done more. I mean, I was amazed talking to two business agents just last night, where they say they really do not have any grievances that are ready for arbitration because they have cleaned it up. And that is not because we are not filing grievances, because we have found ways to resolve them at lower levels to the satisfaction of both parties.

We think that that is the proper way to deal with this.

Are we going to have differences? I just did a television piece with the Postmaster General yesterday. Of course, we are going to have differences. Are we going to disagree? Of course, we are going to disagree.

And as I pointed out to him, when we have disagreements, it will take him a little time to realize he was wrong, but we will kind of pull him over to our side in time. But, sure, that is the nature of our relationship. But we hope that we can create a better environment. And so far we have.

Mr. LELAND. That is encouraging.

Mr. BILLER. Well, we are committed to a more efficient Postal Service. Of course, everybody would like to hold rates and prices down. And somehow, again, when they look at rates in the Postal Service I do not know why they make comparisons, because the Postal Service is probably the only industry that has kind of stayed even a little below inflation or at pace. Because the eight-cent stamp of 1972 and 1973 is probably about 7.8 cents worth today.

People forget you paid a nickel for a cup of coffee and you paid 15 cents for a corned-beef sandwich, which today costs you $8 or $9.

In terms of employee relations, I think the Postmaster General has made some genuine efforts. We do not have the full success or the seeming success that the letter carriers do or others. At least that is our view. Our people are in that post office eight hours a day and in a different type of activity, especially with high technology and highly-mechanized activities.

The biggest disappointment is that on major issues we have not been able to resolve them together. For example, violations of casuals, violations of areas of the contracts. No question there will be disagreements, whether small or large, but the realities are that in major areas we have not resolved them short of arbitration. And that, to me, always indicates a shortcoming and failure in the activities in the collective bargaining process.

And I am hoping that we will be meeting with them and try to resolve these in a totally different manner.

Mr. LELAND. Thank you very much.

Mr. Horton.

Mr. HORTON. Mr. Chairman, I think you have covered most of the questions I had. There is one question I want to ask of Mr. Sombrotto. That was the first I have heard about this effort to contract out rural routes. This, of course, would be an initiative of the Postal Service?

Mr. SOMBROTTO. Well, what has happened is that they chartered the Postal Inspection Service to do an audit and to make comparisons. And they did. And I am sure that Dallas Fields, the president of the rural carriers, will speak to this issue.

And they came back with some findings. And then instructions went out in two divisions that future territory should be assigned to it in what is termed "highway contract routes." That is, to contract these out to private entrepreneurs, rather than to assign them to either rural or city delivery.

And, of course, when you look at that potential, it dwarfs having some people selling stamps in a department store such as Sears, which is a serious situation. But we are talking about an increase of delivery points each year in this country by 1,200,000. That is, each year we have 1,200,000 additional delivery points.

And if those delivery points would be contracted out to other than career employees, that would be a serious problem for all of us, because you would have people that have no commitment or do not have any commitment to the Postal Service as an institution, but just take those jobs on in a passive way, or as a stopgap to whatever they are doing. Or in some way to supplement whatever their real income is. Because the prices that they are talking about are absolutely outrageous.

So, I would leave, as the threat at the present time the threat is more on rural carriers than it is on city delivery. And I do not want to minimize it; it does effect city delivery, too. I think that Dallas will be better able to answer that.

Mr. HORTON. Well, I will certainly ask him. I am not concerned that we are going to pass a bill that will repeal the statutes that protect the Postal Service. In other words, you were here when Mr. Miller was talking about his ideas of privatization, and that has abounded.

Of course, he is gone. The idea is still afloat out there. I have always said that we will not pass a bill to repeal the statute, but we will wake up one morning and we will be privatized. We must watch from inside that this does not happen.

I think you have to be careful that what you are doing is not one of those steps in the direction of privatization. It may be well-intentioned, but it may turn out to be privatization.

It would be easy for them to contract out good routes. Then what happens to the poor ones? There will be more clamor to close more of these small post offices.

I remember in the little town of Rose, which is in my district. It is one person in one little building. When that lady retired, the people in the community were very upset because they thought they were going to close that little post office.

Mr. BILLER. The Postal Service at present contracts out nearly $4 billion in postal service. I am not going to make the biggest issue out of Sears. I do not think it should be understated either. That is retail service. Parcel post could be spun off. Third class mail can be spun off. It is not a fantasy at all.

As a matter of fact, my concern is also in the major area of the Postmaster General. He has got a fancy name for contracting out, and that is worksharing. We have already had, since we have computerized our own vehicle operations, we have shown in a few cases that actually the postal worker could do it cheaper. So what the Postal Service then did, they just contracted out again and let the other party know, well, they could do it cheaper so you had better come across with something cheaper.

So I would not underestimate any of this.

Mr. SOMBROTTO. Let me just add one point. You asked about the Postmaster General speaking against privatization. I truly believe that, yes, he is personally and institutionally against privatization.

Mr. HORTON. I believe that, too. I have no question about that.

Mr. SOMBROTTO. But it is like Agatha Christie's "Twelve Little Indians", you know. If you keep letting this and that happen then there will be none.

So we look at this, the question of highway contract routes or selling retail services at Sears, or whatever, as an encroachment and a slow process.

In fact, you may recall that Jim Miller, when he testified, said that one of the things we have to experiment with in terms of deprivatizing the Postal Service or deregulating is by contracting out all rural routes. That was one of the things that he talked about. And so we have got to be very careful about this.

We could be self serving in our own way you know. If it is rural routes, that does not affect city delivery, it does not affect clerks, but that is not the issue. It affects the Postal Service. And anything that affects the Postal Service as an institution affects all of us that are connected within the Postal Service.

And so we are concerned about all of these situations that may result in minimizing, and in some way injuring the Postal Service as an institution.

Mr. HORTON. I thank you very much and appreciate your testimony.

Mr. SOMBROTTO. Let me say on behalf of the National Association of Letter Carriers, we thank Chairman Leland and of course the ranking member on the Republican side, Frank Horton. And of course Mr. McCloskey is not here right now, but we are very appreciative of your efforts. We are certainly very appreciative of your support throughout the years. And it makes all postal employees, let me represent that, feel very comfortable that we have representatives such as you watching over our interests.

Mr. LELAND. Before you leave, let me try something on the two of you. We have been trying for years to try to eliminate the Hatch Act. And all of your employees are not able to operate or function as equal citizens in this country. I just had a revelation last night about this whole Hatch Act. Maybe, if it is so difficult for us to get rid of it, maybe what we ought to do is to include Cabinet members under the Hatch Act, and a few other people who are exempted.

And I would just like to get a feel for your comments.

Mr. SOMBROTTO. That might be a very good idea. You would amend the Hatch Act to include the restrictions on Cabinet members, president, vice president and everybody else. And then we could amend it backwards and say, well, to make germane amendments to say, well, everybody shguld have the freedom to participate in the political process.

Mr. HORTON. I think the best way is to repeal the Hatch Act afd pass the bill, which we have all sponsored, in both the House and the Senate, and override the veto if necessary.

Mr. BILLER. Well, particularly, in terms of the Postal Service, which is out of the political structure now for some 17, 18 years, that is a fact of life. You do not go down to the club anymore and get yourself a job. If we did, we would have a new grievance.

And there is certainly no reason to continue thas type of second-class citizenship. And if it means that everybody should be in the same boat, so be it. But I would rather it be the other way, as you said, Mr. Chairman, repeal the Hatch Act. Because I am aware there is legislation to revise it, and we support that.

But, certainly, repeal would be in everyone's interest.

Mr. LELAND. I am going to drop a bill in and I am going to ask my ranking member to co-sponsor it with me to include those other folks. And maybe we can find some unexpected allies in our efforts to repeal the Hatch Act.

I thank all of you.

Our next panel of witnesses includes Mr. Dallas Fields, president of the National Rural Letter Carriers Association; Mr. Glenn Berrien, president of the National Postal Mail Handlers Union; and Mr. Robert L. White, president of the National Alliance of Postal and Federal Employees.

Gentlemen, if you will come forward.

[Pause]

Mr. LELAND. There seems to be a substitution for Mr. White.

Ms. TOLLETT. I am Jacqueline Tollett.

Mr. LELAND. Why don't we begin with Mr. Fields.

And let me first welcome all of you. I thank you for coming to appear before this committee.

Mr. Fields.

STATEMENT OF DALLAS FIELDS, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

Mr. FIELDS. Mr. Chairman, members of the committee, we appreciate both of these subcommittees convening to listen to our testimony concerning the implications of the Bush budget on Postal Service operations. We always appreciate the very significant role, which our authorizing committee proposed relative to our component of the congressional budget resolution.

First of all, I would like to endorse, wholeheartedly, the recent statement of House Budget Committee chairman Leon Panetta. He said any budget resolution enacted by the House must meet, first, three criteria. It must be creditable, fair and balanced.

On behalf of the 75,000 rural letter carriers, I endorse Chairman Panetta's criteria.

When the 41st President of the United States was inaugurated, rural carriers were very appreciative of his words seeking a kinder, gentler government, promising the Congress more negotiations and conciliation. Then, we read his budget, and now we say to him: Mr. President, we think it is time that you talk, but, please, talk straight, do not hide your proposed cuts in a black box.

We understand negotiations. Every three years we negotiate our employment contract with the United States Postal Service. In order to begin negotiations, we must agree on the basic set of terms being used in negotiations.

Mr. Darman's budget uses some words with multiple definitions, offers unspecified cuts, offers incomplete, meaningless figures.

In the federal postal area, they propose these harsh cuts: $1.4 billion in savings through cuts to retirees' COLAs; $2.1 billion in savings by elimination of the lump-sum withdrawal option; $1.2 billion in savings by cutting the government's contribution to federal employees' health benefits programs; $5 billion in cuts to Medicare by limiting the increase in payments to hospitals and physicians and increasing the co-payment by beneficiaries; $2 billion cut in United States Postal Service programs.

If our arithmetic is correct, that is approximately $12 billion, all of which affects postal workers. Most of it is direct cuts against federal postal workers. These cuts are terribly unfair and in no way reflect a kinder, gentler nation.

They purport to achieve the needed $35 billion in savings, the Gramm-Rudman target. We doubt this is a sincere budget, however, the black box concept is very clever for it hides domestic cuts twice as large as Reagan proposed in his initial budget.

I would like to return to my remarks about those specific areas which affect us, and tell you how rural carriers view them.

Federal employees' health benefits program provisions now are silly. Congress and the Administration have begun a process for a major reexamination, and a possible rewrite of this entire program. Why use a band-aid when you have the option of sending a patient to the hospital for a thorough examination?

The proposed cuts to the United States Postal Service are outrageous. Senator Domenici, last week, said that he simply cannot abide by the proposal in their budget document whereby $2 billion in cuts might be imposed again on the Postal Service. We thank

him for his compliments and hope Mr. Darman will revise his proposal at the earliest point.

However, we would like to point out the hardships if this budget were adopted as proposed, at a time when productivity increases are being demanded by the public, by management, by the Board of Governors and the mailers alike.

The United States Postal Service can only achieve them if they have the hardware to back up the increased load on the Postal Service. But this budget proposal would effectively stop the United States Postal Service capital improvement program. If the Postal Service is to improve facilities to handle the increased volume of mail, which is estimated to be between 8 billion and 10 billion pieces a year, it can only be done with an ambitious program to modernize and automate.

Because of the White House economic summit of 1987, the Postal Service lost two years in that modernization effort recently. We pray that this committee and the House and Senate budget committees will not let us lose another two years. We will take Mr. Darman and Mr. Bush at their words that this document was, in fact, the first round in negotiations.

However, it is as severe a document as we have seen in the federal postal area. We commend Chairman Leland for his introduction of H.R. 982, which now has 242 co-sponsors. This bill has a potential of real budget savings of $7 billion over five years. This will reduce the deficit without harming service or people.

It is deficit reduction in a kinder and gentler America. We commend one Texan for suggesting it to a fellow Texan in the spirit of bipartisanship.

Thank you for the opportunity. And we do appreciate this time. And I would be happy to answer any questions that you might have.

[The statement of Dallas Fields follows:]

TESTIMONY

OF

DALLAS N. FIELDS, PRESIDENT

NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES

AND THE

SUBCOMMITEE ON POSTAL PERSONNEL AND MODERNIZATION

ON

THE EFFECTS OF PRESIDENT BUSH'S BUDGET SUBMISSION

ON POSTAL SERVICE OPERATIONS

March 9, 1989

Mr. Chairmen and Members of the Committee:

We appreciate both of these Subcommittees convening to listen to our testimony concerning the implications of the Bush Budget on Postal Service Operations. We always appreciate the very significant role which our Authorizing Committee holds relative to our component of the Congressional Budget Resolution.

First of all, I would like to endorse, wholeheartedly, the recent statement of House Budget Committee Chairman Leon Panetta. He said any Budget Resolution enacted by the House must meet first, three criteria - it must be CREDITABLE, FAIR and BALANCED. On behalf of the 75,000 rural letter carriers, I endorse Chairman Panetta's criteria.

On January 20, George Herbert Walker Bush was administered the Oath of Office to become the 41st President of the United States. Rural letter carriers are patriotic, dedicated Americans. We greeted his Inauguration with anticipation, expectation, and good will in our hearts after having had eight long years in which Federal-Postal employees had been severely castigated by our national leadership.

So it was, that we were very much appreciative of his words seeking a kinder, gentler government, promising the Congress more negotiation and conciliation. He said to you, let's talk - not trade rhetoric. Recently, he has been submitting additional documents to his Budget proposals. We have had a chance to examine them. Members of the House and the Senate have had their first sets of hearings with the new Budget Director, Mr. Richard Darman. After hearing him, we say to the new President and his Administration, "Mr. President, we think it is time you talk . . but, please, talk straight. Don't hide your proposed cuts in a black box."

When we examine your Budget documents, the first thing that we find somewhat questionable are your economic forecasts. However, we do understand because optimistic assumptions on your part create the illusion of a smaller deficit and, therefore, mean that you have to cut domestic or military spending far less.

Mr. Darman, we are a labor union that negotiates our contract with our employer. In order to begin negotiations, we must agree on the basic set of terms being used in the negotiations. If we look at your Budget, what we find is that the word "freeze" has at least three different meanings. Mr. Darman, unspecified cuts in a black box, is a difficult way to begin negotiations in earnest.

However, as best we are able to ascertain, these are facts.

In the Federal-Postal area, Bush-Darman propose:

- 1.4 billion dollars in savings through cuts to retirees' COLAs;

- 2.1 billion dollars in savings by elimination of the lump-sum withdrawal option;

- 1.2 billion dollars in savings by cutting the Government's contribution to Federal Employees' Health Benefits programs;

- 5.0 billion dollars in cuts to Medicare by limiting the increase in payments to hospitals and physicians, and increasing the co-payment by beneficiaries;

- 2.0 billion dollars cut in United States Postal Service programs.

If our arithmetic is correct, that is approximately 12.0 billion dollars, all of which affects Postal workers. Most of it is direct cuts against Postal-Federal workers.

These cuts are terribly unfair and in no way reflect a kinder, gentler Nation. They purport to achieve the 35 billion dollars in savings - the Grahm-Rudman target.

- Fourteen billion dollars in taxes or ducks that won't fly.

- Thirteen billion dollars are kicking hell out of the Fed workers again.

- And, 8 billion dollars are somewhere in the black box, multiple choice.

Come on, Mr. Bush and Mr. Darman, in Georgia we say, when presented with something like that, that dog won't hunt. We

° **Elimination Of The Lump Sum Withdrawal.**

Let's remember the history of the lump sum withdrawal. It was offered because this Committee felt that they wanted to restore some equity to Federal-Postal retirees. Since the Tax-Writing Committees had eliminated the three-year recovery rule as a means of raising revenue so they could reduce tax rates in the 1986 Tax Reform Bill, it would now be unfair to go back and take that away, too.

° **Federal Employees' Health Benefits Program Revisions.**

Congress and the Administration have begun a process for a major re-examination and possibly re-write of this entire program. Why use a Band-Aid when you have the option of sending a patient to the hospital for a thorough examination.

The Medicare cuts are put on those least likely to afford them and will drive up the costs of our health benefit programs over several years.

The proposed cuts to the U. S. Postal Service are outrageous. Senator Domenici, former Chairman of the Senate Budget Committee and one of the real authorities in the Senate on the Federal Budget Process, said last week that he simply cannot

don't think that your opening round of budget negotiations is (1) a sincere budget, or (2) has any prayer as offered of being enacted. The black box is very clever for it hides domestic cuts, twice as large as Reagan proposed in his initial budget.

I would like to return to my remarks about those specific areas which affect us and tell you how rural carriers view them.

° **Eliminate 1990 COLA**

It is grossly unfair to eliminate civilian and military retirees' COLA for 1990, if the Administration does not have the courage to recommend cutting all retirees, including Social Security recipients, as well. But, in fact, in their Budget, we find that Social Security recipients have proposed for them a 3.6% cost-of-living adjustment for next year.

° **COLA Reduction**

Our retirees, after a lifetime in service to their Government, survive on a fixed income with inflation adjustments. A reduction in the COLA computation to the Consumer Price Index, minus 1% is unfair and unneeded . . . and, again, unless you should do it for Social Security, too.

abide by the proposal in their budget document whereby 2.0 billion dollars in cuts might be imposed again on the Postal Service. We thank him for his compliments and hope Mr. Darman will pick up on them at the earliest point.

However, we would like to point out some things if this Budget were adopted as proposed. At a time when productivity increases are being demanded by the public, by management, by the Board of Governors, and the mailers alike. The U. S. Postal Service, can only achieve them if they have the hardware to back up the increased load on the Postal Service. But, this Budget proposal would effectively stop the U. S. Postal Service's capital improvement program. If the Postal Service is to improve facilities to handle the increased volume of mail, which is estimated to be between 8 and 10 billion pieces a year, it can only be done with an ambitious program to modernize and automate.

Because of the White House Economic Summit, the Postal Service lost two years in that modernization effort recently. We pray that this Committee and the House and Senate Budget Committees will not let us lose another two years. We will take Mr. Darman and Mr. Bush at their words, that this document was, in fact, the first round in negotiations. However, it is as severe a document as we have ever seen in the Federal-Postal area.

If you want to cut the deficit and do something positive, take the Postal Service off Budget. We appreciate the interest of our Authorizing Committee and, once again, you have our extreme gratitude for we would be severely hampered were it not for your continuing interest in our ability to have the best Postal Service in the entire world.

Thank you, and I would be pleased to answer any questions, if you have them at this time.

Respectfully submitted,

Dallas N. Fields
President, NRLCA

Mr. LELAND. Thank you very much, Mr. Fields.
Ms. Tollett.

STATEMENT OF JACQUELINE TOLLETT, LEGISLATIVE ASSISTANT TO ROBERT L. WHITE, PRESIDENT, NATIONAL ALLIANCE OF POSTAL AND FEDERAL EMPLOYEES

Ms. TOLLETT. I am representing Mr. White.
Mr. LELAND. Could you pull the mike up a little bit closer to you?
Ms. TOLLETT. Mr. White is in another hearing this morning and could not be here.

I am his legislative assistant. Mr. White is the national president of the National Alliance of Postal and Federal Employees, representing 137 locals in 27 states, the District of Columbia and the Virgin Islands. We appreciate this opportunity to offer testimony on proposals in the President's fiscal year 1990 budget affecting the Postal Service operations.

The President's fiscal year 1990 budget asserts that the federal government has taken on improper responsibilities, and, as a result, has managed its programs inefficiently. In order to correct this ill-conceived idea, the 1990 budget proposes to privatize certain portions of the federal government's overload.

The Postal Service is named as a target, along with the Department of Justice's prison hospitals. The government, so goes the rationale, and the private sector should each do what it does best. The federal government should not be involved in providing goods and services where private enterprise can do the job cheaper and better.

Even if we agreed with this premise, there is no hard evidence to support the notion that the private sector can and/or would do a better job delivering the mail than the 800,000 postal workers now employed to do this.

In addition, it seems to us, this government by the people, for the people, and of the taxpayers has a higher duty than that of saving a few pennies when such would clearly be at the expense of many thousands of families who depend on these jobs for their livelihood.

Setting aside the loss of perhaps 700,000 to 800,000 jobs, let us look at the devastation and disruption that would befall the non-business recipients of the universal mail service.

If the private express statutes are repealed, this would open the floodgates for everyone who chose to get into the business of delivering mail. Private industry would compete for business in the most profitable areas, leaving the high-cost, low-revenue areas to the U.S.P.S. The obvious effect would be the total destruction of America's mail system as we now know it, which is now the most efficient and least expensive in the world.

The business community is not known for including community service in its profit-making ventures. Rural and innercity residents whose very lifeline to the rest of the world is tied in with our present-day mail service would most likely be left without mail delivery service.

Persons living in sparsely populated areas could not hope to have their packages, letters, Social Security checks and the like to be delivered for the rates now being charged.

Like every commodity, those who could afford the service would get it in varying degrees depending upon how each one is able to pay. We do not believe that thas was the intent of the federal government when the universal mail service was established at universal rates.

Indeed, the government and the private sector should each do what it does best. The private sector should produce goods, manufacture products for private gain and provide needed services to the community. This is what it does best.

The federal government should establish justice, insure domestic tranquility, provide for the common defense, and general welfare, secure the blessing of liberty, and deliver the mail. This is what it does best.

Article I, section 8, paragraph 7 of the United States Constitution gave Congress the power to establish post offices and post roads. We do not believe that this constitutional imperative should now be tampered with under the guise of budget cuts.

The mail service is not within the purview of a business enterprise, it is a constitutional initiative.

Privatization has been described as a management tool to raise productivity, cut costs and improve the quality of government services. Privatization defined as the transfer of government services, assets and enterprises to private sector providers, replaces monopolies with competition in allowing the competitive pressures of the marketplace to encourage efficiency, quality and innovation in the delivery of goods and services within the government.

The use of competitive pressures within the government framework, the 1990 budget states, "should lead to further improvements in productivity and more contracting with the private sector providers."

Thankfully, we are not familiar with the ongoings within the prison system, but I think I speak for every hard-working, dedicated postal employee when I say we do not need the pressures of the marketplace to encourage us to do our jobs efficiently. No postal service in the world is as dependable, economic and efficient as ours.

None of us is privy to the plans on the drawing board of those persons who have been selected to improve the efficiency and quality of service of the Postal Service. However, it would be a good bet that the retention of jobs is not on the list.

With unemployment and homelessness raging out of control, it is simply unthinkable that the federal government would initiate steps bound to put thousands more out of work.

Mr. Chairman, these assaults against the Postal Service, its workers and the general public must be stopped. Only the Congress has the power to kill the advancement of these ideas. We trust you will do what is needed.

Thank you.

Mr. LELAND. Thank you very much, Ms. Tollett.

Mr. Berrien.

STATEMENT OF GLENN BERRIEN, PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION

Mr. BERRIEN. Mr. Chairman and members of the subcommittee, I am Glenn Berrien, the national president of the National Post Office Mail Handlers Union, a division of Laborers International Union of North America.

I am accompanied here today by both our financial officer, secretary, treasurer, Mr. Marion Wright; and our legislative director, Mr. Joe Seller.

Our union represents more than 50,000 hard-working, dedicated mail handlers in the U.S. Postal Service. We are, indeed, proud to represent their interests on issues before this committee.

Mr. Chairman, we would like to thank you, first of all, for holding this hearing on the Administration's fiscal year 1990 budget proposals affecting the Postal Service. Your past efforts in support of the postal work force have earned you a place of high regard by our entire membership and national officers.

Our membership performs the most physically demanding work that keeps the U.S. mails moving. The efforts of our sister and brother mail handlers on loading docks in the cold of the night and in the heat of the day have contributed to the current status of the U.S. Postal Service as the largest and most efficient postal system in the world.

On Tuesday, before the chairman of the subcommittee on Compensation and Benefits, our union testified about the adverse impact the Administration's budget proposals would have on mail handler benefits and retirement.

Today, we are addressing the Administration's proposals that would significantly impact on the management, operation and financing of the Postal Service at a time when the country faces a huge federal budget deficit.

The mail handlers recognize tough choices must be made to help meet the challenges ahead, but when times get tough, the Postal Service, postal employees and our commitment of service to the American public, should not suffer.

The Administration's budget recommendations for the Postal Service are a mirror image of the so-called dead-on-arrival Reagan proposals. Those proposals include reducing the planned fiscal year 1990 capital commitments by some $823 million; contracting out the retail operations of approximately 7,000 rural post offices; shifting the cost of postal health benefits and retirement costs for all postal retirees and survivors of annuitants in 1990; halting the indirect subsidy and eliminating the revenue foregone subsidy for certain preferred mailers; and eliminating through legislation a projected 4.5 percent pay raise called for by the collective bargaining agreements and provisions regarding pay and COLA adjustments in 1990.

Mr. Chairman, we agree with the February 27, 1989, House Post Office and Civil Service Committee's views and recommendations on the Administration's fiscal year 1990 budget proposals. That the proposals, if implemented, will result in a profound change in the Postal Service as we know it, including changes in levels and cost of service.

The proposals to reduce the Postal Service's planned capital commitments in fiscal year 1990 by some $823 million dollars is a 28 percent reduction that lowers capital spending by $325 million. Such a proposal would seriously undermine the Postal Service's plan to meet the growth across the country and modernize existing facilities to service the public.

The administration has also resurrected the "privatizers" argument to contract out many postal operations. Mail handlers view any attempt to contract out postal work, from retail services to sorting of mail, as a first step to privatization. The postal workforce is dedicated, highly skilled and efficient. Any attempt to replace postal workers with outside workers seriously threatens the integrity of the U.S. mail and the confidence of the American public in that system.

The administration's proposal to contract out specifically targets the closing of over 7000 rural post offices. This proposal is unacceptable because it would subject those postal customers affected to a "third rate postal service."

The elimination of the revenue forgone subsidy to preferred mailers is another Administration proposal. The figure, currently at some $500 million a year, only minimally meets the amount necessary to maintain current rate levels. Any further reduction or elimination of this subsidy, which is appropriated for preferred mailers to encourage a free flow of information through the Postal Service to the public, would deny many public interest groups and non-profit mailers access to their membership.

The Administration has proposed that Congress legislate a new subclass for Federal Government mail and charge reduced rates. In effect, the Administration has erroneously directed this question to the Congress and ignored the existence of the Postal Rate Commission, established under the Postal Reorganization Act to examine the issue of postal rates.

Not only has the administration overlooked the jurisdiction of the Postal Rate Commission, the administration has proposed that Congress somehow legislate away collective bargaining contractual agreements to limit postal union members to the same 2 percent increase suggested for Federal employees. Mail Handlers strongly oppose this proposal as it ignores the collective bargaining process.

Mr. Chairman, our union is aware of the staggering federal deficit facing the new administration. The long-term economic impact is staggering to mail handlers and their children, and their children's children.

We are committed to removing that threat from our future, but not when the only answer the Administration can present is to propose cutbacks in our benefit structure and retirement and, then, threaten the integrity of the Postal Service itself.

Mail handlers and their sister and brother postal employees can no longer suffer under the budget knife because the Administration proposes the easy answers for the deficit. The impact on the morale of the workforce is too severe.

Legislation has been introduced in both houses to return the Postal Service to the off-budget status it enjoyed prior to the Reagan Administration. Returning the Postal Service to the off-budget status will improve the federal deficit. It is an efficient

method of reducing the deficit and will improve the situation for our membership.

Mail handlers support H.R. 982, introduced by the distinguished chairman of the subcommittee on Postal Operations and Service. H.R.982 is co-sponsored by 200 members gf the House.

A similar measure, S. 302, has some 70 co-sponsors.

Mr. Chairman, the Administration has attempted to answer the Postal Service's budget problems with its fiscal year 1990 proposals. Taking the Postal Service off budget and returning it to its former status will provide a better method of addressing those problems.

We applaud you, Chairman Leland, for introducing H.R. 982 and Chairman McCloskey, for co-sponsoring the legislation, and for taking so vocal a stand on this important issue to the membership of our organization.

Mr. Chairman, we strongly suggest the members of the House Post Office and Civil Service Committee participate and make every effort possible to have their views and recommendations on the Administration's fiscal year 1990 proposals presented in any future budget negotiations.

Mr. Chairman, I will conclude my brief remarks, and thank you for the invitation to speak out for and on the behalf of the membership of the mail handlers organization, as well as our associate members on the health benefit plan.

The mail handlers will continue to perform their responsibilities to move the nation's mail with dedication and pride, and in the tradition of progressive trade union democracy. And we will be pleased to answer any questions you may have.

Mr. LELAND. Thank you, Mr. Berrien. And thank you for those very kind remarks.

Let me ask all of you to respond to a situation that is going on that I think is very serious. And I hope you know about this. But, if you do not, let me inform you and then ask you to respond.

The Postal Service is conducting an experiment in which job applicants who have tested positive for drug use are being deliberately hired. Their job performance is then being monitored and evaluated. No one is a stronger opponent of drug use than I am, but, the very notion of using humans as guinea pigs in experiments without their knowledge or consent really bothers me.

Have you taken a position on this? Have each of your unions taken a position on this?

Ms. TOLLETT. Yes, we have. The National Alliance is opposed to the drug testing to, I think, persons who are applicants of the post office. And we are also opposed to drug testing in the workplace.

Mr. LELAND. Mr. Fields?

Mr. FIELDS. We have not taken an official position as such, but we agree with what you have said. We disagree and think that human beings should not be used as guinea pigs without their knowledge.

We probably will, in the very near future, take an official position in that regard.

Mr. LELAND. Mr. Berrien.

Mr. BERRIEN. Yes, Mr. Leland, the Mail Handlers Union will be testifying in depth on that matter on March 21st. In preliminary remarks, we opposed the experimental use of any human beings to

any extent. And, moreover, we believe that it places the Postal Service and the postal employees in a very compromising position to, indeed, employ individuals with questionable characteristics.

Mr. LELAND. Postmaster General Frank attempted to bring in Ross Perot as a consultant. I thought that it was a real shame that the Postal Service mishandled that situation the way that they did. Because I think they badly need the kind of unbiased independent assessment of their operations that someone like Ross Perot could have and would have provided.

What do you think about that which happened? And what do you think about outside consultancy for the purpose of assessing the Postal Service, as opposed to internal evaluation?

Mr. FIELDS. I think that it was a good idea and it is unfortunate that it was handled in the way that it was. In fact, we invited Ross Perot to be a guest speaker at our national convention last summer. Our people were well pleased with what he had to say.

He gave several illustrations. For instance, he said, in the past, the president of General Motors would never be caught speaking to a worker down on the workroom floor. Now they have learned, I believe, from Ford Motor Company, that this is the thing to do.

And now, a worker may speak to the president of the company. He said, at that time, that it was a little shaky as to whether or not he would continue his study and recommendations, but he pledged to those people at that convention that he would be around on the workroom floor talking to the individuals, talking to those people who really do the work, and find out how improvements could be made and what is wrong with the system and so forth.

Our people were very well pleased with having him there and listening to what he had to say. And we think an outside evaluation probably is the way to go.

Mr. LELAND. Do either of the two of you have any comments on that?

Ms. TOLLETT. I was at the hearing. And it was my impression that the outside evaluation was someone not familiar with, who had not worked inside the post office. That was my impression. And I thought that it would be difficult for a person knowing little about the workings inside the facility to do an adequate and appropriate evaluation.

I do not know who this person was.

Mr. LELAND. Mr. Berrien.

Mr. BERRIEN. It is my understanding that, first of all, we do agree with any measures to improve the employee relation structure of the Postal Service. It is, indeed, welcome. However, we differ with the methods and the means that the person that was retained instituted in trying to effectuate this process.

Mr. LELAND. Critics of the Postal Service constantly have harped on the theme that postal employees are being paid too much. I do not know whether I should ask this question. That is like asking a member of Congress—of course, members of Congress think that we are being paid enough, obviously. All but me and Frank and Bob voted against the pay raise. We voted for the pay raise, but most of the members of Congress did not feel.

Ms. TOLLETT. Well, we supported the pay raise.

Mr. LELAND. No. I understand. I was not trying to extract a position on your part for us, but we really appreciate and love you for that. But my question, though, is what do you think about the allegations that you are being paid too much, postal employees are being paid too much?

Mr. FIELDS. I think this is untrue. I do not think postal employees are paid too much. And, by the way, we support a pay raise for the Congress. After having lived here nine years myself, I know you need it because I can hardly get by myself. I know what it costs to live. And we agree. And we also know what it costs to live throughout the country.

And we think postal employees are people who are capable and who do a tremendous job. And we think that they should get a fair day's pay for a fair day's work.

And I disagree with those who are saying that postal employees are overpaid. It is my understanding that in some areas of the country, even those people who collect garbage with no skills whatsoever are paid more than postal employees. And there are other areas of the country where just people who are working with no particular skills are paid more than the postal employees.

So I certainly do disagree with the American public. And when they make that statement, they do not even know how much they are being paid in the first place. You know, they read about the Postmaster General's salary being $99,000 and they think the city letter carriers or the rural carriers are in that same category. They do not really know what the salaries and benefits of postal employees really are, most of those people who say we are overpaid and so forth.

And so I think it is an unfair statement to say that our postal employees are overpaid.

Mr. BERRIEN. Mr. Chairman, we staunchly differ with the opinion that postal employees are paid excessively or too much, especially in the present situation of the mail handlers union, speaking more specifically.

We believe the last contract negotiations, in our opinion, the mere fact that our previous leadership agrees with what we consider to be rank and file treason, we believe that the miniscule pay raise that we accepted was abusive in relation to the work and the difficulties that the postal employees, and especially the mail handlers experienced working in the adverse conditions in the Postal Service on the docks, et cetera.

We took cutbacks and setbacks in many other areas. The two-tier wage scale is prevalent. The penalty pay provisions we eliminated. We eliminated employee rights to file dual grievances. In turn, saving the Postal Service and the public thousands and thousands of dollars.

Our present posture is that we will, indeed, be taking a very aggressive position in the next negotiations, if all fairness to the Postal Service and the public as well. However, we think that we have basically digressed nearly ten years by virtue of accepting the last contract.

Mr. LELAND. Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman. I just wanted to ask Mr. Fields about the exchange I had with Mr. Sombrotto with regard to

his statement about the rural carriers routes being contracted out. Do you have any additional comments that you would like to make on that?

Mr. FIELDS. Yes, sir. I think he hit it pretty well. The Inspection Service was charged to conduct a survey, so to speak, of costs as opposed to regular rural delivery, on how we contract delivery. And they came back with the recommendation or a proposal or whatever.

And it is a cost savings to have highway contract delivery. However, this is only the beginning. Talking to some postmasters who have some contract delivery in their office, they say to me, you know we really do not have any control over these people. They bid on these jobs and they do not furnish good equipment. And we have no control over missed deliveries and scheduling and all of that sort of thing.

And it is damaging, I think, to the American people to have delivery of that nature. What happens is they would put a rural route—well, for many years, the Postal Service has had a contractual right to contract out a vacant rural route which has less than one family per mile. And they have some of those.

Now they are talking about new territory, new developments where you have a whole subdivision, rather than putting city or rural delivery in that new subdivision, contracting it out. And chances are they just now are not ready to contract out a rural route that is encumbered.

However, when this rural route becomes vacant in the future, they may look at contracting it out. And what happens, they say we have a rural route here, 65 miles long and 500 customers, 500 deliveries. And you bid on this job. And many times they will bid $12,000 a year. That means they have got to furnish the vehicle. They are not involved in retirement. There is no retirement contributions made by the Postal Service. There is no equipment allowance paid for the use of that vehicle, no insurance, no nothing.

So, you know, it looks pretty good. Here we can get this route that we are paying X numbers of dollars for, delivered for half or three-fourths of what it is now happening.

And I agree with what Mr. Biller and Mr. Sombrotto said. You know, eventually, if this sort of thing continues to happen, we will have privatizing without the Congress agreeing. It is kind of, if I may use this example. You know, you put a frog in a pan of hot water and that frog will jump out. But, you put a frog in a pan of cool water and let it gradually heat, that frog will sit there and boil.

And I think this is what will happen in the Postal Service if we sit back and let these gradual little things take place. Then, we are going to boil. We are going to be cooked.

But if they hit us with the big thing, you know, we would jump right on it and say, no, no, we cannot stand for these sorts of things to happen. But if they gradually do these little things and we turn our backs on them, then we are going to wake up one day and we are cooked. We have had it.

Mr. HORTON. I think it is important that we watch this very carefully. I think it would be helpful for us to hear a little bit more

about it. I am glad that you made your comments. I am glad that Mr. Sombrotto brought it up. I was not aware of it.

Mr. FIELDS. Well, it is a fairly recent study that was completed. We would be happy to furnish you a copy of that report.

Mr. HORTON. I think that would be helpful if you would do that. I would like to look at it.

[The report was retained in the Hearing file.]

Mr. FIELDS. Vinnie is concerned just as we are concerned. I mean, we represent rural letter carriers, he represents city letter carriers. But if they are successful in doing this, the first thing you know they will be contracting out city delivery.

And, as has been mentioned, the small, rural post offices, and we will not have a parcel service. You know, they gradually closed this post office and that post office. And, then, who knows. They will be contracting out the post office, you know. And they may even sell it to the Japanese investors.

So, all these things we have great concerns about. We would be happy to furnish you a copy of this.

Mr. HORTON. Thank you very much. Thank you, Mr. Chairman. I appreciate it.

Mr. LELAND. Mr. Garcia.

Mr. GARCIA. Thank you very much, Mr. Chairman.

Was the subject of privatization brought up any time?

Mr. LELAND. Oh, yes.

Mr. GARCIA. Well, just let me say on that subject if I may that as the representative of the South Bronx, I am for privatization. If they take the South Bronx and Harlem, and if that is where they start. The problem with privatization is that Harlem and the South Bronx and places like that will never, never, never be touched.

And, under the guise of privatization, I must tell you frankly and unequivocally that I am opposed to it and will always be opposed to it. Because the bottom line really is that it never, never, never touches the poorest of the poor.

And I say that to you because I just wanted to get on the record. I am sorry I missed Mr. Biller and Vinnie Sombrotto who were here earlier. But I certainly wanted a chance to tell you folks that I think privatization is absolutely abominable and it will never, never touch not only the poor in urban America, but the poor in rural America as well.

And so I just wanted to get my expression of anti-privatization in, Mr. Chairman. Thank you.

Mr. LELAND. You are very eloquent as always.

Mr. Garcia, thank you.

Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

Mr. Chairman, I would like to thank you for continuing these hearings in this vein, and I want to emphasize my support for legislation to take the Postal Service off budget. I think it is essential we move in that direction and do it as quickly as we can.

As Chairman Leland has pointed out, we do have serious reservations about the Administration's budget proposals. I believe that the federal postal employees are being asked to share a disproportionate portion of the recommended budget cuts.

I know we have many witnesses, so I am looking forward to hearing the rest of the testimony, and I appreciate the opportunity to present my views, Mr. Chairman. I regret that I could not be here a little earlier because of a scheduling conflict.

Mr. Fields, with regard to your comment on what happens when a route becomes vacant, does that mean that the delivery person retires? When does a route become vacant?

Mr. FIELDS. Yes. That is true. The regular carrier may retire or he may be reassigned upon his own request to a different route. And mostly, in the Midwest as well as in Montana, for instance, practically every time there is a vacancy they contract it out. Because they have, say, 125 or 130 miles to travel everyday, and have, maybe 75 or 80 families.

Mr. GILMAN. How do those costs, Mr. Fields, compare on the contracting out to when the Postal Service was providing it? Do you have any idea? Was there any great savings?

Mr. FIELDS. The carrier is paid on an evaluated system based upon the number of boxes and stops and miles and volume of mail. However, some of these carriers have been there a long time. But they were on a mileage rate of pay. Salary was determined according to the numbers of miles travelled.

Then, the highway contract person just bids on it. The cost savings there, as was said before, is in some salary, of course, and in the benefits. The highway contract person has no benefits whatsoever, no retirement contributions.

Mr. GILMAN. But are those savings significant? It would seem to me, if that kind of a situation, there would not be that much of a savings by contracting out.

Mr. FIELDS. There is a significant savings on a route such as that, say, 125 miles and 75 or 80 families living there. There is a savings on the contracting out sometimes. Maybe the bidder will bid half what the cost is to the Postal Service. Now, how long they can continue to go for that amount of money is unknown.

However, when we are talking about highway contract delivery in new developments or new subdivisions, which may have 500 or 600 families living in an area, the savings, again, I do not really know how much savings there is because this is new, this is something that they are talking about doing now.

They have estimated cost savings based upon that, but they have not really tried.

Mr. GILMAN. I think it would be very helpful, Mr. Fields, to us as these proposals come before us if you had some comparison. It would be helpful to us as we get into these issues.

Mr. FIELDS. We will get those and deliver them to you.

Mr. GILMAN. Thank you very much. Thank you, Mr. Chairman.

Mr. LELAND. Thank you, Mr. Gilman.

Let me thank the panelists for their participation today. You have been very helpful to us and we really appreciate your coming forward.

Thank you so much.

Our next panel includes Mr. Cary Baer, chairman of the Postal Committee Magazine Publishers of America; Mr. Dan Doherty, executive director, Alliance of Non-Profit Mailers; and Father Ralph

Beiting, chairman of the Christian Appalachian Project, Non-Profit Mailers Association.

We are going to proceed in the order in which I introduced our guests.

Mr. Baer, why don't you begin.

STATEMENT OF CARY BAER, CHAIRMAN, POSTAL COMMITTEE, MAGAZINE PUBLISHERS OF AMERICA

Mr. BAER. Thank you, Mr. Chairman.

I would like to enter my statement into the record and just briefly summarize what I think are the most relevant points.

Mr. LELAND. Through special dispensation by unanimous consent on the parts of all of the witnesses, the full text of your testimony will be entered into the record.

Mr. BAER. Thank you, Mr. Chairman.

I agree with the statement that was made earlier that the likelihood is that the Bush Administration has not had a chance to adequately look at that part of the federal budget dealing with the Postal Service. And that is the reason why they have proposed what they have in terms of impacting capital investment, revenue foregone, and retirement benefits.

I would suggest that a reintroduction of the bill, which you have done, to put the Postal Service off budget is probably the best thing that could happen for the Postal Service and also for the federal budget deficit.

Indications are that if the Postal Service was off budget, over a five-year period the federal budget deficit would be reduced by $7.5 billion. I think that is the best thing that could happen to the Postal Service and the federal budget deficit.

A second very significant issue is the revenue foregone funding. I think it is very important that that funding continue. If it were not to continue, profitable organizations would have to make up the difference, which would be a serious mistake.

It is somewhat similar to taxation without representation. If the Congress thinks that there should be a subsidy for postage for nonprofit associations, which we strongly support, then the Congress should fund that.

There is another suggestion in the President's budget that federal mail, government mail, somehow costs less for the Postal Service to handle than other mail. I have done some casual consulting for a couple of governmental agencies to try to help them out with some of their mailing programs; specifically, the Treasury Department. It was my view that their mail is not any less expensive to handle and, in fact, could be made significantly more efficient than it is today.

And so I seriously doubt whether the governmental mail is any less expensive than any other mail. But if, in fact, it were, the institution that the Congress set up some years ago to determine that is the Postal Rate Commission. That is the body that should, in fact, make that determination.

Mr. Chairman, I would certainly be happy to answer any questions that you might have.

[The statement of Cary Baer follows:]

BEFORE THE SUBCOMMITTEES ON
POSTAL OPERATIONS AND SERVICES
POSTAL PERSONNEL AND MODERNIZATION
U. S. HOUSE OF REPRESENTATIVES

MARCH 9, 1989

STATEMENT OF CARY BAER, CHAIRMAN
OF THE POSTAL COMMITTEE
MAGAZINE PUBLISHERS OF AMERICA

Mr. Chairmen and members of the subcommittees, my name is Cary Baer. I am Vice President of Distribution of Reader's Digest, and appear here today in my capacity as chairman of the postal committee of the Magazine Publishers of America, a national organization composed of about 200 publishing companies that publish more than a thousand consumer-interest magazines. MPA members use all classes of mail, and are deeply interested in the maintenance of a sound and efficient U. S. Postal Service.

We testify in response to your request for our views on the President's budget proposals relating to the Postal Service. For the most part, President Bush's postal budget is similar to President Reagan's, essentially requiring three changes: (1) transfer from the Treasury to mail users the responsibility to pay certain postal costs; (2) transfer from the Treasury to regular-rate mail users the responsibility to pay the costs of subsidizing preferred rate mail users; and (3) require the Postal Service to postpone much-needed construction and modernization

projects because the costs of those projects appear as outlays in the Federal budget. We oppose the changes.

Broadly speaking, we view these budget proposals as a very unwise attack upon the independence and vitality of the Postal Service, specific goals that the public, the Congress and the President hoped would be achieved as a result of postal reform 18 years ago. The words that this Committee used in recommending postal reorganization in 1970 -- to get "politics out of the post office, and the post office out of politics" -- ring hollow today in light of the meddling that recent OMB proposals have fostered. Cutting capital spending by $823 million in fiscal 1990 would impair the ability of postal management to provide better, or even the same, service to the American people. The nation is not stagnant: population increases, housing increases, business expands, and the demands for postal services increase along with that national growth. These capital investments, many of which are for equipment, are necessary if Postal Service is to continue its drive for efficiency and better service.

Delaying new construction and modernization of facilities guarantees a return to the conditions that prompted postal reform in the first place, and plays into the hands of those who would "privatize" the Postal Service. A noted director of the OMB in the Reagan Administration was very open about his desire to turn much of the mail over to private hands. Draconian cuts in postal operations and dramatic increases in the burden on rate payers were among his methods designed to achieve that goal. We had

hoped that today there would be a kinder, gentler OMB, and that the wisdom of these measures would be reexamined. Apparently, that will not be the case. Instead, we have the "Black Box," a euphemism hiding a $2 billion slash in Treasury funds that will have to be made up by postal rate payers.

The Administration proposes to eliminate public funding for all preferred rate mail except matter for the blind and handicapped. Rather than continuing the historic policy of funding a portion of charitable and other preferred mail costs at public expense, the President recommends that the circle of favored mailers be reduced, and that the costs of those remaining be paid by other mailers who already pay their own way. Just how Congress should redefine the preferred classes is left unclear. Even if the unenviable task of selecting the favored few who shall continue to mail at preferred rates were achievable, the second half of the President's proposal, to impose on regular rate mailers the costs of the preferences granted other mailers, is, at the least, unfair. This proposal has been characterized as a "charitable contribution" by mailers, similar to General Motors giving to the United Fund. The analogy is incorrect. GM gives voluntarily; the President's proposal <u>requires</u> that the costs of preferred mail be added to the already heavy revenue burden borne by other mailers. A better analogy is "taxation without representation." Artificially increasing the costs for business mail users and the average citizen is not only <u>completely</u> <u>contrary</u> to the basic principles of the Postal

Reorganization Act, as well as the Postal Policy Act of 1958 that established public funding for preferred-rate mailers, but such cross-subsidization would increase the demands of those already calling for relaxation of the private express statutes because regular rate mailers would be overcharged to subsidize other mailers. There will be no reasonable defense against that protest.

MPA has consistently supported and aided preferred rate mailers in securing full funding for revenue foregone authorizations. That is what the law provides, that is what Congress intended, and that is what should be done. The policy of the Congress to appropriate public funds to pay the costs of the preferences it creates encourages mailers to work together to improve the postal service. But if regular rate mailers are required to pay the preferred-rate mailers' postal bill, that harmony, which has been a positive force, could rapidly dissolve into "class" warfare. The Postal Service, mailers, and the quality of service provided the American people will suffer.

The President's proposal to cut the Government's postage bill by $346 million is simply another gimmick to reduce appropriations to the Postal Service. There has been no careful scrutiny of data suggesting that government mail is less costly than other mail, and there is evidence that it is not less costly. In any case, the classes and subclasses of mail should be determined on the basis of evidence presented before the Postal Rate Commission, the agency Congress created to deliberate such

matters. That is the proper arena where the evidence justifying such reduced rates can be exposed to the light of day. If in fact there is justification for such a subclass, based on some mailing efficiency that Federal agencies employ, I am sure many business mailers who send millions of pieces of first- and third-class mail presorted to the walking sequence of letter carriers' routes will be ready to make any necessary changes and line up to share the benefit of the reduced rate. If the subclass is created here in the Congress, on the other hand, as the Administration suggests, some mailers may rejoice to see Congress back in the ratemaking business, and line up outside the committee's door to secure similar favorable treatment.

Finally, proposals to shift the cost of "indirect subsidies" from the Treasury to the rate payer, while appearing to be in keeping with the principles of the Postal Reorganization Act, are, as presented here, merely a shift of $792 million in retirement and insurance costs from the Treasury to rate payers without considering the responsibility of the Postal Service to pay such retirement costs. The Postal Service should not have to pay cost-of-living increases in a letter carrier's annuity when that annuity is based on 10 years' postal service and 20 years' service in another executive agency. But that is what the President proposes.

MPA strongly supports the enactment of your bill, Chairman Leland, H. R. 982, that would take the Postal Service out of the budget, as Congress and the President intended in the 1970 Act.

We subscribe to the principles of self-sufficiency set forth in the Reorganization Act, but before more costs are shifted to the Postal Service's cash register to be paid by mail users, the underlying and more important principle of the independence of the Postal Service from the budgetary and political process must be permanently reestablished. As a start, the Administration might be interested in the practical aspects of H. R. 982: removing the Postal Service from the budget would reduce the Federal deficit by $7.5 billion over a five year period. Perhaps that bonus, plus the opportunity to live up to the principles of postal reorganization, will lead the Administration to support the restoration of the Postal Service's off-budget status.

We appreciate the opportunity to appear before the subcommittees, and I'll try to answer any questions you may have.

Mr. LELAND. Thank you, Mr. Baer.

Mr. Doherty, if I can beg your indulgence. Our colleague, Hal Rogers has come in to introduce one of our panelists. And, if you will, I know that he has got a busy schedule and I would like to ask him if he would, to proceed as he finds necessary.

STATEMENT OF HON. HAL ROGERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. ROGERS. Mr. Chairman, thank you very much for the courtesy of being allowed to introduce a giant in public service in my district, Father Ralph Beiting, founder and chairman of the Christian Appalachian Project. The people of Eastern Kentucky would simply not be the same were it not for the methodical and heartfelt labors of Father Beiting and his organization.

The eastern part of my district, one of the nation's poorest areas, still faces problems many of us associate with yesteryear: large numbers of children without adequate education or skills, poverty rates and unemployment levels that seem endemic at times, welfare dependent families without the wherewithal to make it in a rural area.

The Christian Appalachian Project, based in my district, has expanded over the years to serve these many thousands of people not through handouts and giveaways, but with self-help programs that demonstrate how to learn and to provide.

From respite care to job and GED training, to family crisis services, the Project's outreach in this Appalachian area represents the best society has to offer. And so I am personally thankful for Father Beiting's sense of mission and his complete dedication to this program, the elbow grease he applies as well as the fact that he has applied it in my communities.

On the subject of revenue foregone, let me add my personal note of support. Just a few years ago I served on the Treasury Postal Appropriations subcommittee, where some decisions were made about this program, and I think the right ones, given the good work it permits people like Father Beiting to continue to do.

And so I am very pleased to present Father Beiting. And I want to thank you and the members of your committee for allowing me to present this wonderful man to you.

Mr. LELAND. We thank you very much. And I certainly want to acknowledge the fact that I know the work of your constituent. I am the chairman of the House Select Committee on Hunger, and I have gone to Appalachia, not in Hal's district, but I was there in Appalachia and saw the horrors of what has happened as a measure of poverty. And all that can be done there is certainly most helpful to the people there.

And I hope that we can bring a better sense to the Congress about what your feelings are. Certainly, you have been well-represented by our colleague. And I am very pleased that he would come this afternoon and spend some of his time with us. And we appreciate, too, the support that you have given us on vital issues that we are concerned about.

Mr. ROGERS. Thank you, Mr. Chairman.

Mr. LELAND. Thank you very much for coming.

Father, why don't you just proceed now.

STATEMENT OF REVEREND RALPH W. BEITING, CHAIRMAN, CHRISTIAN APPALACHIAN PROJECT NONPROFIT MAILERS ASSOCIATION

Father BEITING. Thank you.

Certainly, I want to express my most profound appreciation to Mr. Rogers for his kind words, but more especially for his wonderful deeds in our area of eastern Kentucky.

As Mr. Rogers said, I am Father Beiting, founder and chairman of the board of the Christian Appalachian Project. I am honored today to have this opportunity to explain briefly to the committee the work of the Christian Appalachian Project, and how CAP uses revenue foregone as a leverage to provide assistance to more than a quarter of a million people who live in six of the 13 Appalachian states.

I am also appearing today on behalf of the Nonprofit Mailers Federation, a national grass roots network of about 500 nonprofit organizations that, like CAP, depend upon bulk mailings to raise funds and communicate with donors and the public.

CAP serves on the board of directors of the Nonprofit Mailers Federation. CAP raises about two-thirds of its annual budget of almost $20 million through direct mail solicitations. Without revenue foregone, our postage budget could double. That means we would mail many fewer solicitations, which in turn means we could not help nearly as many people as we do.

Last year, CAP served 38,000 people directly and 22,000 family members indirectly through the following programs that we fund: Early childhood education and daycare, college scholarships for high school seniors, shelter and counseling for abused families, sheltered employment for handicapped adults, foster care for handicapped children, emergency assistance home repair for low-income and the elderly, youth and teen centers, used clothing outlets, and assistance for communities with economic development efforts and many more.

CAP's primary service area includes 17 counties in the Appalachian region of eastern Kentucky, and we provide limited assistance to an additional 32 counties in eastern Kentucky.

I wish that you had the time to hear a few examples of what these services mean to individuals or to the families who have benefited. It does not take a great deal of imagination, however, once you realize that in many counties in Kentucky about one-half of the population lives on an income that is below the poverty level.

The problems have grown more acute as federal and state social programs have been cut or eliminated. I would like to share one brief story. It is an example of CAP's home repair program.

My friend Dennis is 79 years old and partially paralyzed as a result of a stroke of about 12 years back. He has no family. He lived in a dirty, run-down seven by ten foot camper that did not have any running water—except when it rained, and then it came through the ceiling—electricity, nor did he have any restroom facilities.

Until last year, he kept his camper on property that belonged to a local mining company. When the company expanded its operations, they reluctantly told Dennis he would have to move. A caring woman learned of Dennis' problem and leased him a strip of her property for $1 a year as long as he may live.

Before CAP's home repair crews started to come to his aid, we asked Dennis a simple question: Dennis, if Jesus himself appeared here today and you could ask him for anything you wanted, what would you ask for? The old man studied for a moment or two and he said to me, "you reckon would it be too much to ask for water, I sure would like to take a bath?"

His new home, furnished by us, 12 by 24 feet, has a bedroom, bathroom and a partial kitchen. Dennis is physically unable to cook for himself so he receives meals on wheels. Revenue foregone enables CAP to solicit funds to pay the construction crew and to solicit in-kind contributions of building materials.

In fact, through our Operation Sharing, CAP reached another 220,000 Appalachian people last year.

Through Operation Sharing, CAP receives in-kind gifts from other nonprofit organizations and for-profit companies. These in-kind gifts range from food, garden seeds and building supplies to children's books. CAP then distributes these goods to needy Appalachian families directly or indirectly through a network of other service organizations, such as community action agencies in areas of Appalachia where CAP is not active.

To give the committee a better idea of how CAP networks in order to reach needy people who live beyond our service area, we prepared a list of organizations with whom we networked last year. I ask, Mr. Chairman, that this list could be incorporated into the record.

Mr. LELAND. Without objection.

[The information referred to follows:]

CHRISTIAN APPALACHIAN PROJECT

322 CRAB ORCHARD RD., LANCASTER, KY 40446

Phone 606-792-3051

Acorn Church of God of Prophecy
Acorn,
KY 42510

Cabinet for Human Resources
109 S. Second Street
Nicholasville, KY 40356

Galilean Home Ministries
P.O. Box 880
Liberty, KY 42539

Lincoln Co. Family Extension Service
P.O. Box 326
Stanford, KY 40484

Mennonite Central Committee
P.O. Box 420
Whitesburg, KY 41858

Mount Zion Baptist Church
Rt 3 - Box 482
Mt. Vernon, KY 40456

Pine Mt. Settlement School
Bledsoe,
KY 40810

St. Timothy's Mission
P.O. Box 656
Irvine, KY 40336

Whitley Co. Communities for Children
P.O. Box 733 - 607 Main Street
Williamsburg, KY 40769

C.A.A. of Deklab
305 Grand Avenue S - P.O. Box 379
Fort Payne, AL 35967

Marshes Siding Church of God
1047 State Branch Road
Marshes Siding, KY

Boyd Co. School System
Head Start Program
Ashland, KY 41101

C.A.A. Marian-Winston Counties
P.O. Drawer G
Hamilton, AL 35570

McCreary Christian Center Inc.
Box 363
Whitley City, KY 42653

Floyd Co. School System
Box 608
Prestonburg, KY 41653

Lancaster Elem School
205 Lexington Street
Lancaster, KY 40444

Cultural Science Library
Greenbier Street
Charleston, WV 25305

Department of Social Sciences
126 Pleasant Retreat
Lancaster, KY 40444

DSS
126 Pleasant Retreat
Lancaster, KY 40444

Casey County Library
Liberty,
KY 42539

Garrard Co. Health Department
1045 Campbell Street
Lancaster, KY 40446

Bucks Branch
H.C. 89 - Box 3450
Martin, KY 41649

Lincoln Co. Head Start
Stanford,
KY 40484

Community Developer H-P C C M
P.O. Box 347
Hazard, KY 41701

Saline Baptist Church
3300 W. Hwy 80
Somerset, KY 42501

Duke Memorial Baptist Church
106 Layman
Somerset, KY 42501

Pollyann Baptist Church
R#2 - Box 83
Eubank, KY 42567

Red Bird Mission Inc.
Beverly,
KY 40913

Somerset First Church of Nazarene
Crawford Avenue
Somerset, KY 42501

Municipal Recreational Council
Rt 4
Edmonton, KY 42129

Old Fashion Faith Baptist Church
Todd Street
Somerset, KY 42501

First Baptist Church
P.O. Box 58
Liberty, KY 42539

COAP Inc.
P.O. Box 1617
Harlan, KY 40831

Lake Cumberland
P.O. Box 505
Somerset, KY 42501

Middle Kentucky Dev.
Breathitt County Courthouse
Jackson, KY 41339

Rockcastle Co. Extension Service
P.O. Box 900
Mt. Vernon, KY 40456

First Baptist Church
P.O. Box 635
Burnside, KY 42519

Floyd County Public Library
Prestonsburg,
KY 41653

Somerset/Pubaski Literacy Council
107 N. Main
Somerset, KY 42501

Adult Basic Ed.
P.O. Box 110
Somerset, KY 42501

Coalition for Appalachian Ministry
P.O. Box 159
Amersville, OH 45711

Goose Creek Baptist Church
Rt 7 - Box 237-A
Somerset, KY 42501

Breathitt Co. Courthouse
Jackson,
KY 41339

First Baptist Church
Science Hill,
KY 42553

Brothers Brother
824 Grandview Avenue
Pittsburgh, PA 15211

Joy Inc.
Kerby Knob Post Office Gen. Del.
Kerby Knob, KY 40441

Community Out-Reach Inc.
P.O. Box 548
tompkinsville, KY 42167

Honz, Ervin
Breathitt County
Little, KY

Lincoln Co. Head Start
Stanford,
KY 40484

Bethany Baptist Church
303 Jacksboro
Ferguson, KY

Pleasant Hill Baptist Church
1011 Clifty Road
Somerset, KY 42501

Southern W. VA. Evan,
P.O. Box 6
Coal Mt., WV 24823

Apostolic Mission Church
220 Clifty Street
Somerset, KY 42501

Daniel Boone Deve.
P.O. Box 277
Manchester, KY 40962

Liberty Baptist Church
Box 417 Hwy 790
Bronston, KY 42518

Buena Vista Baptist Church
324 Clifty Street
Somerset, KY 42501

Jackson Co. Ministries
Annville,
KY 40402

LaFaves, Denzil
P.O. Box 49 A - RR 1
Eubank, KY

Come-Unity Cooperative Care
P.O. Box 56
London, KY 40741

Come-Unity Thrift Shop
P.O. Box 56 - West Fifth Street
London, KY 40741

Jacksonville Baptist Church
Rt 5 - Box 350
Somerset, KY 42501

Christian Care Center
Box 137
turkey Creek, KY 41570

Cumberland Co. Literacy Program
P.O. Box 37
Burkesville, KY 42717

Grass Roots Ec.
Rt 1 - Box 253
Jackson, KY 41339

Federation of Appalachian-Housing Enterprises, Inc.
Drawer B
Berea, KY 40403

McCreary Co. Christian Care Center
McCreary,
KY

New Life Evangelist
Rt 2 - Box 15113
Columbia, KY 42728

Boyle Co. Family Development
By-Pass 127 - P.O. Box 1487
Danville, KY 40422

Mauney, Mildred
P.O. Box 155
Jellico, TN 37762

Anderson County Schools
P.O. Box 155
Jellico, TN 37762

Grundy Chapel Methodist Church
Robinson Street
Burkesville, KY 42717

Big Sandy Area Community Action Prog.
Paintsville Courthouse
Paintsville, KY 41240

Wallins Creek Fellowship Center
P.O. Box 674
Loyall, KY 40854

Cumberland Baptist Church
Rt 7 - Box 283
Somerset, KY 42501

Lincoln Co. Family Extension Service
P.O. Box 320
Stanford, KY 40484

Haynes Creek Church of God
Rt 3 - Box 150
Williamsburg, KY 40769

Oak Hill Baptist Church
566 Oak Hill Road
Somerset, KY 42501

Swannanoa Valley Christian Min.
P.O. Box 235
Black Mt., NC 28711

First Baptist Church Lancaster
South Paulding
Lancaster, KY 40446

Holy Redeemer Catholic Church
Rt 1 - Box 6 A
Vanceburg, KY 41179

New Hope Ministries
P.O. Box 307
Morehead, KY 40351

Pingleton, Arnold
RR 3
Crab Orchard, KY 40419

Licking Valley
302 High Street
Flemingsburg, KY

Pilot Knob
P.O. Box 319
Berea, KY 40403

Friendship Center
Williamsburg,
KY

St. Paul Church
McKee,
KY 40447

C & S Mission
800 South Central Street
Campbellsville, KY 42708

Christian Family Service
Box 1238
Harlan, KY 40831

SHARE
39196 Grant Street
Lisbon, OH 44432

Garrard Home Care
P.O. Box 174
Lancaster, KY 40444

Dungannon Sewing Coop. Inc.
P.O. Box 393
Dungannon, VA 24245

Appalachian Service Project Inc.
Boone and Watauga Street
Johnson City, TN 37601

Lancaster Baptist church
Richmond Street
Lancaster, KY 40444

Mountain Mission Comm. D.C.C.W.
Covington,
KY

Lexington-Fayette Urban Co. Govt
Lexington
KY

Science Hill School Library
Stanford Street
Science Hill, KY 42553

Organized Community Action
P.O. Box 908
Troy, AL 36801

Calvary Baptist Church
1403 East Vernon
Somerset, KY 42501

B.G.C.A.A.
319 Stanford Street
Lancaster, KY 40444

Kentucky Food Bank
P.O. Box 821
Elizabethtown, KY 42201

Acorn Church of God
#5 Pleasant Drive
Somerset, KY 42501

Cranks Creek
P.O. Box 32
Cranks, KY 40820

Bell County School System
Pineville,
KY

Ashland Heat Start
1420 Central Avenue
Ashland, KY 41101

McCreary Co. Ministrial Assoc.
P.O. Box 57
Stearns, KY 42647

Gateway Comm. Services
124 College Street - P.O. Box 36
West Liberty, KY 41472

Trinity Pentecostal church
114 University Drive
Somerset, KY 42501

Brighton Center
746 Central Avenue
Newport, KY 41071

G.E.D.
Whitley City,
KY

Magoggin Co. Foster Children
Box 63
Salyersville, KY 41465

Lake Cumberland Regional Library
1111 Garmon Ferry Road
Burkesville, KY 42717

Rockcastle Co. Senior Citizens
P.O. Box 746
Mt. Vernon, KY 40456

The Church of Jesus Christ
220 N. Campbell Street
Lancaster, KY 40444

Appalachian Com. for Children
P.O. Box 419
McKee, KY 40447

Lancaster Estates Apartments
Lancaster,
KY 40444

Garrard Co. Public Library
Lancaster,
KY 40444

Development Commission Inc.
P.O. Box 393
Dungannon, VA 24245

Burnside Elementary School
E. Lakeshore Drive
Burnside, KY 42519

Hogue Elem School
Hogue,
KY 42535

God's Pantry-Crisis Food Center
P.O. Box 22386
Lexington, KY 40522-2386

Upper San Mt. Parish
P.O. Box 267
Sylvania, AL 35988

School-on-Wheels
Rt 4 - Box 105 A
Monticello, KY 42633

Save the Children
Berea,
KY

Kentucky River Foothills
rt 4
Irvin, KY 40336

Garrat Elem School Library
Rt 6 - Box 142
Liberty, KY 42539

Deliverance Helping Hand
Corbin,
KY 40701

Pleasant View Methodist Church
Rt 2 - Box 624
Williamsburg, KY 40769

Kentucky Mountain Housing
P.O. Box 729 - Manchester Square
Manchester, KY 40962

First Presbyterian Church
Richmond,
KY 40475

Appalachia Service Project Inc.
Box 410
Inez, KY 41224

Cumberlan County Ministerial Assoc
Box 197
Burkesville, KY 42717

Migrant Progra
Lancaster,
KY 40444

Pulaski Co. Public Library
107 N. Main Street
Somerset, KY 42501

Burdine Elem School
Burdine,
KY 41507

Church of the Nativity
Hawthome Avenue
Cincinnati, OH 45013

Pentecostal Church Home
HC 81 - Box 790
Barbourville, KY 40906

Senior Citizens
2045 Campbell Street
Lancaster, KY 40444

Cooperative Christian Ministry
P.O. Box 721
Middlesboro, KY 40965

Community Development Club
P.O. Box 137
Stearns, KY 42647

Adair Co. Health Dept
Columbia,
KY

Maternal Infant Health Outreach Worker
Rt 4 - Box 870
Williamsburg, KY 40769

Big Brother & Big Sister of Pulaski Co.
209 S. Maple Street
Somerset, KY 42501

Community Farm Alliance
Nernix,
KY 40049

Interfaith of Breathitt Co.
Box 86
Jackson, KY 41339

Interfaith of Bell Co. Inc.
P.O. Box 625
Pineville, KY 40977

Jobs Clearinghouse Inc.
320 E. Main Street
Morehead, KY 40351

White Oak Baptist Church
Nancy,
KY 42544

RockCastle Co. Library
Mt. Vernon,
KY 40456

Jesus is Lord Christian Fellowship
P.O. Box 74
eubank, KY 42567

First United Methodist Church
99 S. Central Avenue
Somerset, KY 42501

Dormody, Mary
Box 361
Whitley City, KY 42653

Heifer Project
Morrill General Delivery
Morrill, KY 40455

LKLP
HC 32 - Box 42150
Red Fox, KY 41847

Walnut Grove Church of Christ
Rt 3
Eubank, KY 42567

Rebecca Caudill Public Library
Cumberland,
KY 40423

First Baptist Church
P.O. Box 284
Science Hill, KY 42553

North East Dev.
P.O. Box V
Olive Hill, KY 41164

Christian Comm. Center Appal. Apostolate
Rt 1 - Box 6 A Inc.
Vanceburg, KY 41179

CHR-DSS Lincoln Co.
P.O. Box 385
Stanford, KY 40484

Burnside United Methodist Church
Burnside,
KY 42519

Grace Baptist Church
Liberty,
KY 42539

Harlan County CAS
P.O. Box 1556
Harlan, KY 40831

Liberty Ladies Circle
HWY 790 - Box 416
Bronston, KY 42518

Hope United Methodist Church
P.O. Box 203
Franks, KY 40940

Buffalo Trace regional Library
P.O. Box 370
Loisia, KY 41230-0370

Father BEITING. One of CAP's primary goals is to create employment opportunities. This represents yet another example of how CAP leverages revenue foregone. You may recall, Mr. Chairman, seeing our beautiful live pine wreaths on the doors of Capitol Hill offices this past Christmas. They were made in CAP's Christmas wreath and craft production facilities in Jackson County, which employees 121 people.

Last year, the facility pumped almost a quarter of a million dollars into Jackson County in the form of wages and purchases of material from local vendors. These jobs would not exist without revenue foregone. There is not a market for Christmas wreaths, birdhouses, Easter or Memorial Day crosses in Appalachia, at least not a market sufficient to keep 121 people working.

CAP has only been able to develop a market for these crafts outside of Appalachia thanks to the revenue foregone. Without affordable bulk mail rates, CAP could not generate orders for Christmas wreaths and other fine crafts year round.

On the subject of jobs, CAP also employs 66 people in Appalachia in our fundraising office. None of these people would have jobs either if it were not for revenue foregone.

Altogether, CAP employs now about 325 people. There are an additional 120 part-time jobs that we fill at various times during the course of the year.

In conclusion, on behalf of CAP and the other 500 members of the Nonprofit Mailers Federation, we respectfully request that the committee recommend full funding of revenue foregone in the fiscal year of 1990. I understand that full funding is a little less that $460 million this year.

To put this amount in perspective, consider the leveraged power of revenue foregone when you look at the nation as a whole. Almost $94 billion was contributed to philanthropic organizations in 1987, the last full year for which numbers are available. Individuals donated almost $77 billion of that amount. These figures are available to us today.

If we assume, conservatively, that only one-half of the $77 billion was contributed in response to direct mail solicitations, nonprofits were able to take $550 million that Congress appropriated for revenue foregone in 1987 and increase it by at least 84 times.

It may be one of the best investments Congress makes each year to improve the quality of life for a broad cross section of citizens. Not even one penny of the revenue foregone is spent for administration or bureaucracy.

In Appalachia and elsewhere, revenue foregone enables nonprofit organizations to make a big difference in people's lives.

Mr. Chairman, these remarks end my official statement. I wonder if I might burden you with a reflection. I came into Appalachia as a young man when I was 26 years old. It was 1950, Harry Truman was President of these United States. I came into an area where Catholics were not accepted. At the very best, I could find one Catholic out of maybe 1,500 people.

They did not think much of my faith and of me as a friend. But, as time went on, when they came, they came out of desperation. For you see, I could see their cars running out of Appalachia

frightened because there were no jobs. And more than 250,000 of them left eastern Kentucky alone.

I went with them to their homes, and I saw babies in cages in which chicken wire kept them from being eaten by rats. I have taken a lady out of a chicken coop where she had to live for more than seven months, a grandmother, and we put her in a decent place.

I have seen children play in our polluted streams that were so filthy you wondered how they could live. And I have seen the eroded hills where no vegetation could come. Somehow they asked me to help. I needed to help, and I thought and prayed and I think I found the answer in a book.

And that book was not, strange to say, the Bible. That answer was in a phone book. A phone book that I got from New York and from Chicago and Philadelphia and Boston and Texas. In there they had the name and addresses of people, and I took out whatever ethnic group I could find, whether they were Irish or German or Italian or Hispanic or anything else.

And I wrote to them and I told them of my needs and my problems. And in the traditional American spirit, I found that they loved and cared. As a consequence, I was able to put programs in to help black children before Little Rock, and I was able to bring programs that brought volunteers into the Appalachian area before Peace Corps and VISTA.

I was able to establish programs that gave economic vitality to people before the New Frontier or the Great Society. That was all because I could talk to my friends by mail. I know that you here are dedicated to economy and I applaud that. You are to be good stewards of the nation's finances.

Yet, when I started through this direct mail more than 39 years ago, you and the Post Office and the people who are responsible let me take a step, and that step has turned into countless thousands of miles that we have run, bringing so much good to people.

I sincerely believe that you are going to make a good investment in keeping revenue foregone alive. And I know full well, after 39 years, that it is going to be the best investment because it is going to create new income to service programs that nobody now feels we can afford.

I guess, in some small way, I hope I have 15 years left to walk the valleys of Appalachia, to see the people and talk with them, to dry their tears, listen to their dreams. And I hope and pray, gentlemen, that you will allow me to serve, that you will not take away the book that gives me entrance into direct mail.

Thank you.

Mr. LELAND. Thank you, Father. Let me suggest that I hope you have 39 more years. And I hope that you can continue your work, you know, in the way that you have done.

And I also will tell you that we have already submitted our proposals to the budget committee, which include your recommendation, I might add. So, the members of this committee, I think, all are very much supportive of what you want to do.

Let me also thank you for the wonderful wreaths that you sent to members of Congress. The folks who you supervise and have

them make wreaths have really done a lot to lighten up our lives in those special times of the year.

Thank you so much.

Father BEITING. You are most welcome. And when I tell the people who make them, ordinary folks that have mountain traditions stretching back for two centuries, and they said did they like them? Did they think they were pretty? I say to them, they thought they were more than pretty, they thought they were beautiful, and that what you are doing is making Appalachia stand for quality rather than for poverty. So, we are happy to share them with you.

Mr. LELAND. You can tell them that the appreciation on the part of some members of Congress at least is a matter of Congressional record now.

Father BEITING. Thank you.

Mr. LELAND. Mr. Doherty.

STATEMENT OF DAN DOHERTY, EXECUTIVE DIRECTOR, ALLIANCE OF NONPROFIT MAILERS

Mr. DOHERTY. Thank you, Mr. Chairman. I will be very quick today.

The Alliance, by its charter, has a special concern with the provision of revenue forgone funding, which goes in large part to nonprofit third-class mailers for a number of purposes, to nonprofit publications entered as second class, and to users of the fourth-class library rate. Most of the latter, a large number of them, at least, are nonprofit institutions.

Under the provisions of the Postal Reorganization Act, as you know, all of these mailers pay all of the direct and indirect costs attributable to them and the revenue forgone provision, in effect, covers the mark-up or the overhead of the Postal Service.

Under the equal mark-up amendment, which the Alliance was pleased to propose in 1986, which Congress enacted and which took effect with the last general rate increase in April of 1988, the revenue forgone requirement for fiscal year 1990 is about $300 million less than it otherwise would have been. When you add in the correction of the fiscal year 1987 reconciliation, the sum for fiscal year 1990 is a little under $460 million. That is up slightly from the $436 million of the current fiscal year.

When we put this in perspective, the fiscal year 1990 request represents an increase of less than one percent over the original Postal Reorganization fiscal year 1972 revenue forgone requirement, and is more than 45 percent below the fiscal year 1981 revenue forgone appropriation of $836.7 million.

What we are saying here, I think, Mr. Chairman, is that revenue foregone—and I think this extends to the Postal Service across the board—has not been a dead weight on the Treasury of the United States through this period of growing deficits.

I have prepared a little chart on this trend over the past decade, which I have submitted to your staff, if it could be included in the record. It shows the downward trend over the past decade in revenue forgone.

We of the Alliance believe that there is a sound public policy supporting revenue forgone. I would bring to you today a quote from a recent article in the Wall Street Journal no less, of February 14, 1989, which makes the point that revenue forgone is perhaps more important today.

That article said, "President Bush, strapped for cash to pay for social service programs, hopes to make volunteerism a central theme of his Administration, pushing the charitable, private sector 'points of light' to take up the burden the government has laid down."

But, when we turn to the Bush Administration's budget proposal for 1990, we see little if no change from the recent past. Despite talk of new initiatives, we have a grab bag of basic governmental programs from education for the handicapped to dislocated job training boxed in the so-called black box, or nominal freeze category. The Postal Service is there, revenue forgone is there. It is up in the air, perhaps, what it means, but we are told to assume that the Reagan proposals are on the table, for openers.

It further appears that if those are indeed on the table, that we have other proposals to restrict the use of revenue forgone, to alter the definition of education, to require a formal student-teacher relationship, which would impact numerous organizations such as museums, for example.

We have proposals on the table to restrict "advocacy." I can recall a period when consumer interests were subversive in many minds. One man's advocacy is somebody else's real problem.

Revenue forgone bears directly on the ability of many, indeed, most private sector nonprofit organizations to finance their operations. It represents, in effect, a lever they can use to raise funds to pay the cost of relieving poverty and assisting the distressed and the underprivileged, of advancing religion, of science, and education, of promoting health and social welfare in general, and of lessening the burden of governments at all levels.

Mail-related giving accounts for about 40 percent of all philanthropic contributions in this country by the best estimates we have. And fundraising is but one, although an important one, of the purposes to which the preferred rates are being put to use.

The Alliance takes the position that the provision of revenue foregone funds, in order to permit the Postal Service to continue granting reduced rates, is sound policy that should be supported.

Additionally, however, as mailers, we have a great deal of concern over the state of the U. S. Postal Service itself. The Reorganization Act of 1970 was enacted in large part to facilitate the Postal Service's operation as an independent entity, operating in a businesslike manner.

Unfortunately, its ability to so operate was virtually negated by the mandates of the Omnibus Budget Reconciliation Act of 1987. Because of our concern that the Administration's fiscal year 1990 budget proposal threatens a repeat performance, that is, a cut of $2 billion in Postal Service outlays, again, hitting hard capital expenditures, the board of directors of the Alliance of NonProfit Mailers has taken action.

Meeting in Washington on March 1st, the board voted to support your initiative H.R. 982, Mr. Chairman, that would return the

Postal Service to the off-budget status which it had from 1974 to 1986.

The Alliance board believes the conversion of the Postal Service's businesslike accrual accounting system to the unified budget's cash-basis system, distorts reality and results in pressures for outlay reductions that have the effect, in large part, of contravening in a substantial way the Postal Reorganization Act of 1970.

I thank you for this opportunity to make our views known, Mr. Chairman.

[The statement of Dan Doherty follows:]

ALLIANCE OF NONPROFIT MAILERS

Mr. Chairman and members of the Subcommittees, the Alliance of Nonprofit Mailers is pleased to appear today to give its views on proposals in the FY 1990 Budget which bear upon postal operations.

The Alliance of Nonprofit Mailers is a nonprofit corporation organized under the laws of the District of Columbia for the purposes of providing a forum for nonprofit and charitable organizations entitled to and, in fact, entering mail at the special nonprofit rates; developing and exchanging knowledge on the proper use and management of the nonprofit mailing privilege; educating the citizenry on the role of that privilege and its importance to society, and finally in formulating and articulating beneficial policies concerning the availability, use and management of nonprofit postal rates.

In addition to representing its members and similarly-situated organizations in forums such as this hearing, the Alliance regularly is an active intervenor in proceedings before the Postal Rate Commission and, when necessary, the United States courts. It also is represented on other postal-related organizations, such as the Mailers Technical Advisory Committee.

The Alliance, by its own charter, has a special concern with the provision of adequate funding for the so-called revenue forgone account. It is this line item which provides funding to compensate the U.S. Postal Service for carrying certain qualified mail at preferred rates. The largest portion of that funding supports reduced rates for nonprofit third-class bulk mail, nonprofit publications entered at second-class rates and mail entered at the special library rate, the users of which are largely nonprofit institutions.

Under the provisions of the Postal Reorganization Act, these mailers, and others eligible for preferred rates, are required to and do pay postage established so as to recover all the direct and indirect postal costs attributed to them. Revenue forgone appropriations, then, are authorized to cover Postal Service overhead or institutional costs -- the mark-up, if you will. Under the equal mark-up amendment which the Alliance proposed and Congress enacted in Fiscal Year 1986, and which took effect with the general rate adjustments made last April, the revenue forgone requirement is pegged to the mark-up on the corresponding regular rate for each class of mail.

Were it not for that amendment, the Postal Service's estimated revenue forgone requirement for FY90 would be about $300 million greater than it is. The request, corrected to account for the estimating error in FY87, is $459,755,000. That is up from the current year's appropriation of $436.4 million.

When put in perspective, the FY90 request represents an increase of less than one percent over the original post-reorganization appropriation for Fiscal Year 1972 of $457.6 million. And it is more than 45 percent below the level of the Fiscal Year 1981 revenue forgone appropriation of $836.7 million.

Mr. Chairman, we would add to our testimony here today a chart on this perspective, showing the downward trend in revenue forgone outlays over the past decade. The point is to demonstrate that the revenue forgone account has not been a deadweight on the Treasury. Indeed, the same can be said for appropriations to the Postal Service in general.

We of the Alliance believe that the revenue forgone payment and the public policy on which it is based makes a great deal of good sense; more today, perhaps, because of the increased demands being placed on the private, nonprofit sector. An article in the Wall Street Journal of February 14, 1989, makes the point. It said, "President Bush, strapped for cash to pay for social service programs, hopes to make volunteerism a central theme of his Administration, pushing the charitable, private-sector 'points of light' to take up the burden the government has laid down."

Private sector initiatives were, of course, talked about a great deal during the past Administration. Nonetheless, a report issued last year by the Union for Experimenting Colleges and Universities observed that the sector had been "buffeted by government funding costs, public policy changes, and competition from proprietary businesses" to the point of being "underfunded and it's ability to finance itself is threatened."

When we turn to the Administration's Budget proposals for FY90, we find little to no change. Despite talk of new initiatives, we find a grab-bag of basic governmental programs from education for the handicapped to dislocated workers' job training boxed in a so-called "nominal" freeze that fails to define which are to be "winners," which "losers," and which frozen at the FY89 level.

Revenue forgone, which is a discretionary program subject to appropriation, is in that category, at least as best we can interpret the Administration's program.

Revenue forgone bears directly on the ability of many, indeed most, private-sector nonprofit organizations to finance their operations. It represents, in effect, a lever they can use to raise the revenue needed to fulfill their purposes. Many of the eligible mailers are unquestionably public-benefit organizations with purposes that encompass the relief of poverty, assistance to the distressed and underprivileged, advancement of religion, of science and of education, the promotion of health and social welfare in general, and the lessening of the burden of governments at all levels.

Giving USA, the annual report on philanthropy by the American Association of Fund-raising Counsel Trust for Philanthropy, estimated total giving in 1987 for the U.S. at $93.68 billion. Of that, $76.82 billion, or 82 percent, was from individuals. Other estimates would put the mail-influenced portion of that total at about $37.5 billion. In short, mail-related giving accounts for about 40 percent of all philanthropic contributions, even when individual gifts are added to bequests and to corporate and foundation grants. And fundraising is but one, although an important one, of the purposes for which preferred rates are extended.

The Alliance, then, takes the position that the provision of revenue forgone funds in order to permit the Postal Service to continue granting reduced rates to the qualified mail of eligible organizations is sound policy that should be supported.

As mailers, the Alliance membership has a great deal of interest in and concern over the state of the U.S. Postal Service itself. We

are concerned about the ability of this "break-even, self-sustaining and fee-for-service entity," to use your description, Chairman Leland, to fulfill its charge of providing reasonable and effective postal services to all the Nation.

The Reorganization Act of 1970 was enacted, in large part, to facilitate the Postal Service's operation as an independent entity operating in a business-like manner. Unfortunately, its ability to so operate was virtually negated by the mandates of the Omnibus Budget Reconciliation Act of 1987, which resulted in significant service curtailments that caught the public eye. But, to the Alliance as mailers, the more severe, long-lasting damage resulted from the strictures placed on the Postal Service's capital improvement program.

Because of concern that the Administration's FY90 Budget proposal threatens a repeat performance; that is, a cut of $2 billion in Postal Service outlays, hitting hard again at capital expenditures, the Board of Directors of the Alliance of Nonprofit Mailers has taken action. Meeting in Washington on March 1, 1989, the Board voted to support legislative initiatives underway in the House (H.R. 982) and the Senate (S. 302) that would return the Postal Service to the off-budget status which prevailed from 1974 to 1986. The Alliance Board believes the conversion of the Postal Service's business-like accrual accounting system to the Unified Budget's cash-basis system distorts reality and results in pressures for outlay reductions that have the effect, in large part, of contravening, in a substantial way, the Postal Reorganization Act of 1970.

Mr. LELAND. Thank you very much, Mr. Doherty.

Mr. Baer, magazines are not covered by the private express statutes and are therefore free to use alternative delivery services. Since you do have alternatives, why do most magazines continue to rely upon the Postal Service for delivery of their products?

Mr. BAER. It would take quite awhile to answer that question, I think. As a matter of fact, let me just point out that some magazines are, in fact, testing alternative means of distribution, and some magazines have in the past. But, in today's environment, the United States Postal Service still is the most efficient and effective way to distribute magazines across the country.

We hope that the Postal Service continues to be the most efficient and effective way to distribute magazines across the country in the future.

Mr. LELAND. I know magazines are constantly looking for a better deal or for better delivery service, and I appreciate your comments about the Postal Service being the best. What kinds of alternatives have been considered other than the Postal Service that might measure up, at least in part, to where the Postal Service is, or have you found anybody that has come even close?

Mr. BAER. I think it is possible in certain areas of the country to compete with the United States Postal Service. I think it is difficult at this point to compete on a nationwide basis. But this attempt, quite frankly, to improve is an external prod toward efficiency.

For example, if in certain areas of the country it is possible to deliver a magazine less expensively than thought by the United States Postal Service, much that is learned by the private deliverers often acts as an impetus to the United States Postal Service to improve and become more efficient.

I think this took place some years ago, before I was involved in the Postal Service, under Postmaster General Bolger. He realized that there was some potential for private delivery to compete with the Postal Service, and he recommended a host of modifications to the postal system's operations.

I think that introduced a fair number of efficiencies into the Postal Service. Fresh ideas and innovative techniques can be very helpful to the Postal Service.

Mr. LELAND. Thank you.

I guess the next question will go to you, Mr. Doherty, or Father Beiting.

The Postmaster General has said that if adequate funds for revenue forgone are not appropriated, he will have no choice but to raise rates accordingly.

What effects would this have on an organization like yours, or charitable organizations? And I think Father, you were pretty much full in your statement in response to this question, but maybe Mr. Doherty might want to shed a little more light.

Mr. DOHERTY. Well, thank you, Mr. Chairman, yes.

The complete loss of revenue forgone at this time would, on average, increase nonprofit third-class rates by about 40 percent. That is the mark-up on commercial class on average today.

So that would be a substantial drag on even the largest of nonprofit institutions, let alone the smallest. The Alliance includes both kinds. This is a big, significant factor in their operations, not

only for fundraising, but for disseminating information around the country.

Mr. LELAND. Father, would you like to add anything?

Father BEITING. Yes. I think one of the things we always have to get back to are people. You know, who do I turn away when they come with the spouse abuse problem because I have not got the means because the postage would cost me and the organization $2 million a year more if it doubled.

That means that I cannot get the income that I need. It means that I have to start saying to this woman, just go back home and be battered. Or to this young person who wants to get into school, we cannot help you. You are going to just simply have to go according to the welfare system that does not reach you.

I live in a district where it is the second worst in the entire state of Kentucky educationally. It means, for example, that I am going to have to tell people to quit dreaming, that there isn't any better tomorrow, that somehow we have to settle for welfare, and that you cannot get out of it. We cannot give you a step forward. We cannot give you a dream.

It would seem to me, if America settles for that, we have settled for too little. By the means of the mail, I can get people excited all over the country. One of the young women who was here listening to the hearings was from New Jersey, and she stopped me in the hall and said, I just never thought I would meet you. She said, I have been helping you. She is a mail carrier, and she said, I learned your name from somebody on my mail route that is mailing you things and what has happened. I have got my mother and my sister involved.

Those people are excited in New Jersey, and because of New Jersey and New York and Texas and Illinois and Ohio, there is America at work again. We are not simply sitting down and bemoaning; we are out there dreaming and walking and living. And the kids come to me, you know, and say, gee whiz, you know, can we do something? Can we do something?

Does America want to tell their young, we do not want you to do anything, just sit down and be quiet? That is what we are telling Appalachian kids if we do not have the ability to raise money and to interest people.

So, I think it is slow death, and we cannot afford to die. We need to live.

Mr. LELAND. I hear you, Father, loudly and clearly. The rates for charitable organizations have been see-sawing back and forth for the last eight years.

What effect has this had on the operations of non-profit organizations and on your ability to plan for the future?

Father BEITING. Well, planning is the big problem that we are facing right now. We do not know what we can do. We do not know what we are going to be faced with. When we got hit with about a $400,000 postal increase a year or so ago, we had to cut some programs. We simply could not continue some of them because we had to take that $400,000 and give it to the postal system.

It means that we do not know how to plan for the future. And not knowing how to plan, you start doing things haphazardly. That is inefficiency. And it means you waste money. It means that you

do not get to root problems. It does not mean that you have started to cure things.

We do not want to be a band-aid aid in Appalachia. We do not want our people forever having to have some patent medicine given to them. We want them to take something that is going to allow them to be free. Once they are free—God, when I see kids that I have had at camp that were very poor, that are now, in turn, helping other poor, I say to myself, America is a wonderful place. What we have been able to do is great.

If we cannot plan to do that, and if we do not get to that point, we are sitting in a very inefficient way, and why should America take a second place to anybody? I think that we need it. We need to be able to plan on it, so we can have programs that will go not for next year, but for five years and ten years.

I am dreaming now of what is going to be by the end of the century. But if I do not know what is going to happen with the post office, I am going to have to start saying, I cannot dream, I cannot help. I have to slow down. Maybe it is because I am 65, but I do not want to slow down.

I want to see the other people just say, America is the best, and we are going to make it better. We need your help.

Mr. LELAND. Thank you.

Mr. Doherty.

Mr. DOHERTY. To give you some scope of the problem, Mr. Chairman, this is probably the most frequent question asked of me or my office by members and other non-profit organizations: My fiscal year starts July 1, what is going to happen to our postal rates during that year?

And we go out on a limb. But it is scary because you do not know. We cannot tell them with any certainty what the rate is going to be on October 1, by any means.

Mr. LELAND. Well, I want to thank all of you for your contribution today. And we hope that we are successful in our attempts to meet the goals that you have expressed here today. We certainly do sympathize with you. And we will do all that we can. I think that I speak for at least most of the members, a majority of the members of this committee, if not all.

Thank you so very, very much.

The committee will now adjourn until 2:00.

AFTERNOON SESSION, 2:07 P.M.

Mr. MCCLOSKEY [presiding]. This oversight hearing of the Subcommittees on Postal Operations and Services and Postal Personnel and Modernization will come to order.

I would hope that before too long we will have some other members here to hear your statements and ask questions. I know that they are very vital statements, which I have read already.

I want to apologize to those of you who were here this morning. I could not be here as I was attending the Civil Service Subcommittee hearing on another very, very important issue.

I understand that my statement was submitted and accepted for the record this morning. And so with that, we are going to welcome a panel consisting of Mr. Ron Swisher, president of the National

League of Postmasters; Earl Ogle, president of the National Association of Postmasters of the United States; and Vincent Palladino, executive vice president of the National Association of Postal Supervisors.

Good afternoon, again, gentlemen. Welcome.

Mr. Swisher, I will turn this over to you, and you may proceed as you like.

STATEMENT OF RON SWISHER, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS

Mr. SWISHER. Thank you, Mr. Chairman.

We appreciate the way you have scheduled these hearings and appreciate the opportunity of expressing our views. I have reviewed your statement and want to say that you seem to have a grasp of our feelings in the budget proposals, where $823 million have been proposed to be cut from the capital commitment.

It reminds me of myself recently when I had to buy a new car and I was faced with spending $5,000 to repair the old car or going ahead and buying a new one. The Postal Service without that $823 million is going to continue to repair old equipment and continue to repair old buildings.

It is definitely not cost-effective in the long run. Now, I know that you, Mr. Chairman, and Chairman Mickey Leland, are well aware of the threat to the Postal Service and the American people. We believe the American people are receiving the best postal service now and deserve to continue receiving the best postal service in the world.

In order to do this, we believe the Postal Service should be removed from the unified budget, the President's budget. And we believe that it is imperative that the debt limit be raised to allow for necessary capital improvements.

Postal rate payers' revenues must not be used, either a plus or a minus, as a part of the magic act that seems to surround the federal deficit.

Chairman McCloskey, we applaud you for the work you have done on our behalf. We applaud Chairman Leland for introducing H.R. 982, which would remove the Postal Service from the President's unified budget.

The National League of Postmasters further applauds the approximately 200 co-sponsors of H.R. 982 and the 70 co-sponsors of S302 in the Senate.

I believe everything that needs to be said has been said. I feel, therefore, that I am a little bit like a preacher preaching to the choir, except you have already heard a couple of sermons before me.

So, with that, I will conclude my statement and be open to any questions.

[The prepared statement of Mr. Swisher follows:]

NATIONAL LEAGUE OF POSTMASTERS
OF THE UNITED STATES

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEES, MY NAME IS RON SWISHER, AND I AM PRESIDENT OF THE NATIONAL LEAGUE OF POSTMASTERS OF THE UNITED STATES. THE LEAGUE REPRESENTS 27,000 POSTMASTERS AND APPROXIMATELY 30,000 FEDERAL EMPLOYEES ENROLLED IN OUR HEALTH PLAN AND RECEIVING OTHER BENEFITS. I AM ACCOMPANIED BY ED BOWLEY, OUR LEGISLATIVE CONSULTANT.

I WANT TO THANK YOU FOR INVITING US TO TESTIFY ON THE PRESIDENT'S FY 1990 BUDGET AFFECTING POSTAL SERVICE OPERATIONS, AND COMMEND YOU FOR CONDUCTING THESE HEARINGS SO PROMPTLY AND AT A TIME WHEN THE U.S. POSTAL SERVICE CONTINUES UNDER DELIBERATE, VICIOUS AND WELL CALCULATED ATTACK.

THE U.S. POSTAL SERVICE, SINCE IT WAS ESTABLISHED UNDER PL 91-375, THE POSTAL REORGANIZATION ACT OF 1970, HAS PERFORMED ADMIRABLY. IT HAS MET EVERY MANDATE IMPOSED UPON IT UNDER THIS ACT -- TO THE CHAGRIN OF ITS CRITICS -- BUT THEY DON'T STOP, OR EVEN SLOW UP THEIR IRRESPONSIBLE AND UNFOUNDED ATTACKS ON THE SERVICE.

MR. CHAIRMAN, LET US REVIEW THOSE MANDATES. FIRST, AND FOREMOST, THE U.S. POSTAL SERVICE WAS TO OPERATE IN A BUSINESS-LIKE MANNER, ON A BREAK-EVEN BASIS. THE FACT IS, THE POSTAL SERVICE HAS REACHED AND MAINTAINED THAT POSTURE OVER THE PAST ELEVEN YEARS.

ANOTHER FACT SUPPORTING HOW WELL THE POSTAL SERVICE HAS PROGRESSED IS THAT CONGRESS HAS NOT APPROPRIATED ONE CENT FOR POSTAL OPERATIONS SINCE 1982. PRIOR TO REORGANIZATION, 25 PERCENT OF POSTAL OPERATIONS WAS PAID FOR FROM THE U.S. TREASURY.

IN THE FISCAL YEAR 1974 BUDGET, THE OFFICE OF MANAGEMENT AND BUDGET (OMB) AGREED THAT ONLY APPROPRIATIONS TO THE POSTAL SERVICE BELONGED IN THE FEDERAL BUDGET. THAT BUDGET EXPLAINED, "BUDGET TREATMENT OF THE POSTAL SERVICE FOR 1974 REFLECTS ITS INDEPENDENCE FROM FEDERAL CONTROL. INFORMATION ON POSTAL OPERATIONS IS SHOWN IN THE ANNEXED BUDGET SECTION OF THE BUDGET APPENDIX, AND ONLY THE FEDERAL PAYMENT TO THE POSTAL SERVICE IS NOW INCLUDED IN THE BUDGET TOTALS".

HOWEVER, MR. CHAIRMAN, IN THE FISCAL YEAR 1986 BUDGET, THE OMB MOVED THE POSTAL SERVICE BUDGET BACK WITHIN THE PRESIDENT'S OVERALL BUDGET TO HAVE A MORE "UNIFIED BUDGET". SINCE THE POSTAL BUDGET IS NOW INCLUDED, IT IS INCREASINGLY REGARDED AS FAIR GAME TO HELP ACHIEVE THE OVERALL BUDGET REDUCTION TARGETS ESTABLISHED EACH YEAR BY THE GRAMM-RUDMAN-HOLLINGS ACT.

FOR EXAMPLE, P.L. 100-203 PROVIDED THAT THE POSTAL SERVICE BE REQUIRED TO PAY $350 MILLION INTO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND IN FY 1988 AND $465 MILLION INTO A "POSTAL SERVICE ESCROW FUND", IN FY 1989. FUNDING FOR THESE PAYMENTS WAS TO BE ACHIEVED THROUGH CAPS ON THE POSTAL CAPITAL INVESTMENT PROGRAM OF $625 MILLION IN FY 1988 AND $1.995 BILLION IN FY 1989.

ADDITIONALLY, THE POSTAL SERVICE WAS REQUIRED TO PAY $160 MILLION IN FY 1988, AND $270 MILLION IN FY 1989 INTO THE FEDERAL EMPLOYEES HEALTH BENEFIT FUND. THESE FUNDS WERE REQUIRED TO COME FROM MEASURABLE REDUCTIONS IN OPERATING EXPENSES IN EACH FISCAL YEAR. NO REVENUE FROM NEW POSTAGE RATES, ADDITIONAL BORROWING OR OTHER BUDGETARY RESOURCES WERE TO BE USED FOR THIS PURPOSE.

FOR THE POSTAL SERVICE, THE FISCAL YEAR 1989 BUDGET RESOLUTION AUTHORIZED $436,400.00 FOR REVENUE FOREGONE.

IN MARCH, 1988, THE PRESIDENT'S COMMISSION ON PRIVATIZATION PRESENTED ITS RECOMMENDATIONS ON THE POSTAL SERVICE. THEY INCLUDED: PHASE-IN REPEAL OF THE PRIVATE EXPRESS STATUTES; IMMEDIATE REPEAL OF THIRD-CLASS MAIL PROVISIONS OF THE PRIVATE EXPRESS STATUTES; REPEAL OF THE PRIVATE EXPRESS STATUTES FOR RURAL DELIVERY; EASING OF RESTRICTIONS ON PRIVATE DELIVERY OF URGENT MAIL; REPEAL OF PROHIBITIONS AGAINST THE PRIVATE USE OF MAIL RECEPTACLES; CONSIDERATION OF SELLING THE POSTAL SERVICE THROUGH AN EMPLOYEE STOCK OWNERSHIP PLAN; MORE ACTIVE PURSUIT OF CONTRACTING OUT OPPORTUNITIES; AND SUPPORT FOR POSTAL SERVICE EFFORTS TO ENSURE THE HIGHEST AND BEST USE OF ITS ASSETS.

IT IS IMPORTANT TO UNDERSTAND THAT THE INTENT OF THE POSTAL REORGANIZATION ACT WAS TO SEPARATE THE NATION'S POSTAL SYSTEM FROM THE COMPLICATED COMPETITION FOR FUNDING OF ALL FEDERAL AGENCIES BECAUSE OF THE VITAL NATURE OF ITS MISSION TO PROVIDE AFFORDABLE COMMUNICATIONS SERVICES TO ALL THE PEOPLE OF THIS NATION.

A MOST IMPORTANT FACT IS THAT THE POSTAL SERVICE FUND IS NOT A SOURCE OF FEDERAL DEFICIT PROBLEM. POSTAL REVENUES AND OPERATING FUNDS COME FROM THE RATEPAYER AND THE POSTAL SERVICE MUST REMAIN FREE TO USE ITS REVENUES TO THE FULL BENEFIT OF ITS RATEPAYERS.

AS PART OF THE GRAMM-RUDMAN-HOLLINGS ACT, CONGRESS PROVIDED FOR RETURN TO THE FEDERAL BUDGET OF SIX ENTITIES WHICH HAD PREVIOUSLY BEEN LISTED "OFF-BUDGET" BY LAW. THE POSTAL SERVICE WAS NOT INCLUDED IN THIS CONGRESSIONAL DECISION. IT WAS PLACED ON-BUDGET SEPARATELY BY ADMINISTRATIVE ACTION OF THE OMB. THE REASON FOR THAT MOVE, IN OUR VIEW, BECOMES OBVIOUS WHEN YOU CONSIDER THE AGENDA OF THEN OMB DIRECTOR, JAMES MILLER, III. HE HAS BEEN A CONSISTENT ADVOCATE OF DISMANTLING THE POSTAL SERVICE "MONSTROSITY" AND "PRIVATIZING" THE SERVICE.

THE CONGRESSIONAL DECISION TO RETURN THE OTHER SIX ENTITIES TO THE BUDGET SHOULD NOT BE REGARDED AS A BASIS FOR RETURNING THE POSTAL SERVICE ACCOUNT ON-BUDGET, BECAUSE, NOT ONE OF THEIR BUDGETS INVOLVES SIGNIFICANT CAPITAL INVESTMENT ACTIVITY.

CONTINUATION OF BUDGET HITS ON THE POSTAL SERVICE WILL CAUSE VISIBLE AND MORE SERIOUS CUTS IN SERVICE, AND AGAIN, IN OUR VIEW, IS PROGRAMMED TO PRODUCE A PUBLIC GROUNDSWELL FOR PRIVATIZATION. THE CONGRESS MUST REAFFIRM THE CONSTITUTIONAL MANDATE FOR A "UNIVERSAL POSTAL SYSTEM" ONCE AND FOR ALL.

IN ADDITION TO THE REORGANIZATION ACT MANDATE FOR THE POSTAL SERVICE TO DETERMINE ITS OWN EXPENSES AND RAISE ITS OWN REVENUES TO COVER ITS COSTS, IT WAS TO BE PERMITTED TO BORROW SUFFICIENTLY TO MAKE ITS OWN CAPITAL IMPROVEMENTS.

IN 1970, THE ACT PERMITTED THE POSTAL SERVICE TO BORROW UP TO 10 BILLION DOLLARS. IN 1988, THAT LIMIT IS EQUIVALENT TO $3.7 BILLION DOLLARS, GIVEN INFLATION. IN 1970, POSTAL REVENUES TOTALED ABOUT $9 BILLION DOLLARS -- TODAY, POSTAL REVENUES EXCEED $35 BILLION DOLLARS.

INSTEAD OF CUTTING BADLY NEEDED CONSTRUCTION FUNDS, AS CONGRESS DID IN THE FY '88 BUDGET RECONCILIATION ACT, CONGRESS SHOULD SERIOUSLY CONSIDER INCREASING THE POSTAL SERVICE'S BORROWING AUTHORITY TO MORE CLOSELY RESEMBLE TODAY'S POSTAL REVENUE AND COSTS.

THOSE CUTS REDUCED BY 74% ALL NEW PROJECTS IN FY'S '88 AND '89, INCLUDING CRITICALLY NEEDED NEW AND RENOVATED FACILITIES, EQUIPMENT AND VEHICLES TO MOVE THE 160 BILLION PIECES OF MAIL IN 1988. THE CUTS DELAYED 50% OF PLANNED CAPITAL PROJECTS OVER THE TWO YEAR PERIOD. WHEN YOU ADD INFLATION TO THE COSTS AT THAT TIME, THE POSTAL SERVICE HAS SUFFERED EVEN MORE FINANCIALLY -- AND THAT WILL CONTRIBUTE TO EXPEDITED POSTAL RATE INCREASES.

AS A RESULT, THE POSTAL SERVICE'S PRODUCTIVITY AND EFFICIENCY IS REDUCED -- SOME ASPECTS OF SERVICE HAVE SUFFERED -- AND THE VERY ONES RESPONSIBLE CONTINUE TO CRITICIZE THE POSTAL SERVICE.

ALSO, AS MANDATED BY THE 1970 ACT, CONGRESS MAINTAINS CLOSE SCRUTINY OF THE POSTAL SERVICE. IT RECEIVED AN ANNUAL REPORT FROM THE POSTMASTER GENERAL, A COMPREHENSIVE STATEMENT ON POSTAL OPERATIONS, AUDITS BY THE GENERAL ACCOUNTING OFFICE (GAO) AND INDEPENDENT AUDITORS, AND CONGRESS CONDUCTS ANNUAL AND PERIODIC OVERSIGHT HEARINGS. IN ADDITION, THE POSTAL RATE COMMISSION PROVIDED AN INDEPENDENT FORUM FOR RATE CHANGES.

UNDER THAT ACT, THE POSTAL BUDGET WAS TO BE FREE FROM POLITICAL INFLUENCE AND NOT USED TO BALANCE OR OFFSET DEFICITS IN OTHER AREAS OF FEDERAL GOVERNMENT. THE SIZE AND SCOPE OF POSTAL OPERATIONS WAS TO BE DETERMINED BY DEMAND -- THAT IS, MAIL VOLUME -- AND NOT BY FLEETING EXTERNAL POLICY NEEDS.

IT IS CLEAR THAT WHEN THE POSTAL BUDGET IS ADJUSTED BY CONGRESS TO MEET AN ANNUAL BUDGET REDUCTION TARGET, AS OCCURRED IN THE FY' 1988 BUDGET RECONCILIATION ACT, THE POSTAL BUDGET IS AGAIN BEING SET FOR OUTSIDE PURPOSES AND NOT FOR THE PURPOSE OF SERVING THE NATION'S CRITICAL POSTAL NEEDS AS SPELLED OUT UNDER THE POSTAL REORGANIZATION ACT.

THE AMOUNTS CUT WERE DETERMINED NOT BY ANY REFERENCE TO POSTAL OPERATIONS OR NEEDS, BUT BY AN ARBITRARY DEFICIT REDUCTION NUMBER ASSIGNED TO THE POSTAL AND FEDERAL FUNCTION.

THIS IS NOTHING MORE THAN ULTIMATELY PASSING ON A TAX INCREASE TO THE PUBLIC BY ACCELERATING THE NEED FOR THE NEXT POSTAL RATE INCREASE. THESE MANDATED CUTS WILL PRECLUDE THE POSTAL SERVICE FROM MAINTAINING ITS PRESENTLY ESTABLISHED POSTAL RATE STABILITY OF THREE YEAR CYCLES. THERE IS NO WAY THE USPS, IN THE FACT OF ARBITRARY BUDGET SLASHING MOTIVATED BY PURELY EXTERNAL POLITICAL EXIGENCIES, CAN MAINTAIN SUCH RATE STABILITY WITHOUT SEVERELY CURTAILING OR ELIMINATING SERVICES.

AND YOU CAN BE ASSURED OF LOUD AND LONG HOWLS FROM THE "PRIVATIZATION" HOUNDS THAT THE POSTAL SERVICE "JUST CAN'T DELIVER".

PRESIDENT BUSH'S BUDGET PROPOSALS WOULD NOT ONLY VIRTUALLY ELIMINATE REVENUE FOREGONE, A SUBSIDY FOR CERTAIN NONPROFIT MAILERS, BUT, IT ADDRESSES PRIVATIZING "SOME" POSTAL SERVICES -- WITHOUT BEING SPECIFIC. SURELY, MR. CHAIRMAN, THE RESULT OF OUTSIDE INTERFERENCE WITH THE U.S. POSTAL SERVICE'S CAPITAL EXPENDITURE AND OPERATING BUDGETS DURING EFFORTS TO REDUCE THE 1988-89 FEDERAL BUDGET DEFICITS WOULD BE FAR MORE DEVASTATING IF PERMITTED TO HAPPEN AGAIN.

IT WOULD BE AN EXTREMELY SERIOUS AND COSTLY MISTAKE TO CONTINUE USING POSTAL RATEPAYER REVENUES TO REDUCE THE FEDERAL DEFICIT.

HOWEVER, MR. CHAIRMAN, THERE IS A SOLUTION TO THESE PROBLEMS. ONE TO PRESERVE BOTH FEDERAL EMPLOYEE BENEFITS AND ASSURE UNINTERRUPTED POSTAL SERVICES.

THAT IS TO "TAKE THE U.S. POSTAL SERVICE OFF OF THE PRESIDENT'S UNIFIED BUDGET."

H.R. 982, A BILL TO REMOVE THE U.S. POSTAL SERVICE OFF OF THE PRESIDENT'S UNIFIED BUDGET HAS BEEN INTRODUCED BY CONGRESSMAN MICKEY LELAND, DISTINGUISHED CHAIRMAN OF THE SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES.

THE, BILL IN EFFECT, RETURNS THE POSTAL SERVICE TO THE "OFF-BUDGET" STATUS IT ENJOYED PRIOR TO FY 1986. ITS RECEIPTS AND DISBURSEMENTS WOULD NO LONGER BE COUNTED FOR PURPOSES OF DETERMINING THE FEDERAL DEFICIT. IT PRECLUDES THE ADMINISTRATION OR CONGRESS FROM REDUCING THE DEFICIT BY INCREASING STAMP PRICES OR DECREASING POSTAL SERVICES. MORE IMPORTANTLY, IT PRECLUDES MICRO-MANAGING THE POSTAL SERVICE BY OUTSIDE SOURCES.

CHAIRMAN LELAND HAS BEEN JOINED BY APPROXIMATELY 200 MEMBERS AS COSPONSORS TO H.R. 982. IN ADDITION, A SIMILAR BILL IN THE U. S. SENATE, S. 302, HAS 70 COSPONSORS.

THIS LEGISLATION IS INTRODUCED IN BOTH HOUSES OF CONGRESS TO RESTORE THE POSTAL SERVICE TO ITS PRIOR OFF-BUDGET STATUS, AND TO EXEMPT THE SERVICE FROM STATUTORY DEFICIT CONTROL MEASURES. THIS LEGISLATION IS WIDELY SUPPORTED BY THE POSTAL COMMUNITY, AND PASSED THE HOUSE BY A WIDE MARGIN IN 1988. ALSO, LAST YEAR THE SENATE EXPRESSED WIDE-BASED SUPPORT FOR THE ISSUE IN A SENSE OF THE SENATE RESOLUTION, THE PROPOSED LEGISLATION DID NOT COME TO A VOTE BEFORE THAT BODY.

MOVING THE POSTAL SERVICE OFF-BUDGET WILL HAVE A POSITIVE IMPACT ON THE FEDERAL DEFICIT. IT SHOULD BE NOTED THAT THIS ACTION IN NO WAY REDUCES CONGRESSIONAL OVERSIGHT OF POSTAL ACTIVITIES THE POSTAL SERVICE ALLEGES THAT MOVING THE SERVICE OFF-BUDGET WILL REFLECT A $ 2.2 BILLION REDUCTION TO THE DEFICIT IN 1990, AND 7.5 BILLION DOLLARS OVER THE NEXT FIVE (5) YEARS. THESE ESTIMATES ARE PREMISED ON A STATUTORY BREAK-EVEN PERFORMANCE IN 1991-1994.

IT WOULD APPEAR TO US THAT THIS IS A PAINLESS WAY TO REDUCE THE FEDERAL DEFICIT AND CERTAINLY LESS HARMFUL TO FEDERAL/POSTAL EMPLOYEES AND ANNUITANTS.

THE NATIONAL LEAGUE OF POSTMASTERS IS PREPARED TO ASSIST YOU AND YOUR STAFF IN YOUR UNTIRING EFFORTS TO FIND REASONABLE SOLUTIONS TO THE PROBLEMS CONFRONTING THIS SUBCOMMITTEE, AND TO MAKE CERTAIN THAT THE FEDERAL GOVERNMENT HONORS ITS COMMITMENT TO ITS EMPLOYEES.

MR. CHAIRMAN, THANK YOU FOR SCHEDULING THESE HEARINGS AND FOR PROVIDING US THE OPPORTUNITY TO EXPRESS OUR VIEWS ON THESE IMPORTANT ISSUES. IN OUR VIEW, FEDERAL AND POSTAL EMPLOYEES ARE THE MOST LOYAL, DEDICATED, PROFESSIONAL AND BEST OVERALL WORKFORCE IN THE WORLD.

WE WOULD BE PLEASED TO ANSWER ANY QUESTIONS.

Mr. McCLOSKEY. Mr. Swisher, your full statement will be accepted for the record. We appreciate your comments.

Mr. Ogle.

STATEMENT OF EARL W. OGLE, PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Mr. OGLE. Mr. Chairman and members of the committee, I am Earl Ogle, president of the National Association of Postmasters of the United States. And NAPUS represents about 43,000 active and retired postal masters throughout this nation.

We thank you and the chairman, the members of the committee, for giving us an opportunity to testify on the President's budget proposals for fiscal year 1990. And specifically, the impact that the budget would have on the United States Postal Service.

On March 7, we testified before Chairman Ackerman's committee on compensation and employee benefits with regard to the proposed budget cuts and the impact those cuts would have on postal and federal employees; suffice to say, that the kinder and gentler commitment made by President Bush evidently did not extend to postal and federal employees.

For fiscal year 1990 the Administration proposes to put a $1.6 billion hit on the United States Postal Service. In fact, our customers are still being hurt by the $1.4 billion hit that was imposed on the Postal Service for fiscal years 1988 and 1989.

We find the budget proposal puts an unfair burden on the Postal Service, and we perceive serious ramifications to the service if they are adopted by the Congress.

It is interesting to note that the current law authorizes annual appropriations to the Postal Service of up to $460 million for public service costs. The Postal Service has not requested such appropriation since 1983.

In the year preceding, the Postal Service received $12 million. And yet, the Administration proposes to virtually eliminate the revenue foregone subsidy which is currently $560 million. This subsidy, which is not a subsidy to the Postal Service, but is a subsidy appropriated by Congress for preferred mailers, has already been cut several times. Eliminating that subsidy would be devastating to nonprofit mailers.

In addition, the Administration proposes that the Postal Service absorb all indirect subsidies, and we understand that the Postal Service agrees that it should fund costs associated with its operation. However, the proposal is unclear as to what portion of the cost are the responsibility of the Postal Service and what portion is attributable to the Federal Government.

Mr. Chairman, I have never heard a postal official say that the Postal Service was not ready or willing to accept a fair approach to picking up the costs of all its operations. The operative word here is fair. The cuts proposed by the Administration are grossly unfair and contrary to the provisions of the Postal Reorganization Act.

Now there is an answer for avoiding the continued deterioration of the Postal Service through ongoing budget cuts. And that is simply to remove the Postal Service off the unified budget.

We are very grateful to you and to Chairman Leland and to the members of the full committee who recognize that and are attempting through H.R. 982 to correct the situation.

We applaud you and we support your initiative.

Mr. Chairman, the American people cannot afford to lose a universal postal service. The budget proposals made by the Administration appear to continue the effort of the former director of Office of Management and Budget to privatize the Postal Service by cutting into its operations and capital improvement programs and thus creating a negative reaction from the American people.

Congress is our buffer, we know that. We appreciate the efforts of the Chairman and the committee. And on behalf of the Postal Service and its employees, thank you very much. And I will be happy to respond to questions.

Mr. MCCLOSKEY. Thank you very much, Mr. Ogle.

Mr. Palladino.

STATEMENT OF VINCENT PALLADINO, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

Mr. PALLADINO. Thank you, Mr. Chairman.

Mr. name is Vince Palladino. As executive vice president of the National Association of Postal Supervisors, I appreciate this opportunity to testify on behalf of our members concerning President George Bush's budget proposals.

After hearing has remarks during the inauguration, it appeared that the Administration would show renewed respect for Federal and postal workers. However, after reviewing the President's first budget proposal, it appears that has appreciation for postal and Federal employees has diminished since election time.

I am grateful for thas opportunity to testify before the subcommittees about the budget's effects on the Postal Service and postal supervisors. When Congress established the United States Postal Service in 1970, the intention was to build a few postal system to provide universal postal service through a corporation operating if a businesslike fashion.

Instead of being heavily subsidized by the Federal Government, the new U.S.P.S. would pay its own way, operating with monies received from its rate payers.

Shortly after reorganization, the Congress took the additional step of removing the Postal Service from the unified Federal budget, again, to keep the politics of the federal budget out of postal operations.

For 12 years, the Postal Service remained off budget and gradually built a continually modernizing postal system, which complied with the Congressional dictate of breaking even over time.

The Postal Service has requested rate increases every three years, but at levels that have kept us as the most efficient and least expensive postal system in the world.

With passage of the Omnibus Budget Reconciliation Act of 1987, however, politics were back in our nation's postal system, and the Postal Service was asked to reduce a deficit it did not create, and at the expense of postal customers.

Plans for new facilities and automation equipment essential to handling the anticipated increases in mail volume predicted in the 1990s were scrapped. Windows were closed and Sunday mail sorting was and remains discontinued.

Having seen the results of OBRA, it was our hope that President Bush would place a higher value on our postal system and realize the wisdom of the Office of Postal Reorganization, who sought to de-politicize the old Post Office Department.

But now, we find that the President would freeze postal programs, a short-sighted solution to the deficit, which would have a devastating effect on the Postal Service's capital investment plan and those mailers who receive revenue foregone funding.

The new Director of the Office of Management and Budget, Richard Darman, has included the Postal Service in the "black box," a collection of programs which the Administration apparently views as secondary in importance. The programs in the "black box" will be frozen at 1989 levels.

The effect, which would never had occurred if the Postal Service had remained off budget, will be devastating to the U.S.P.S.' ability to deliver the mail today, but even more so in the future.

This country is going to need the best equipment for automating and mail-sorting processes. It is going to have to build new facilities in states which are experiencing tremendous population growth and to replace out-dated facilities throughout the country.

By cancelling plans now for new equipment and facilities, the President would only guarantee that the ultimate cost of these already expensive programs will increase.

And, because the Postal Service must break even over time, the long-term cost of thas short-sighted solution will be borne by the public, our rate payers. The Postal Service does not receive direct government subsidies and therefore should not be asked to reduce a deficit to which it did contribute.

For the sake of this country's postal system, I would ask the members of the subcommittees to rebuff the Administration's attempts to disrupt postal operations and to support legislation which would prevent even the possibility of a disruption in the future.

Thank you, Mr. Chairman.

Mr. McCLOSKEY. Thank you very much, Mr. Palladino. I thank all three of you again for excellent statements.

I am sure your statements do go into much of what I am about to ask you next, but could you give us for the record a total, comprehensive estimate of your policy and fiscal analyses of the Reagan-Bush Administrations' post office budget.

We had an extensive discussion on that yesterday, if I could get your point-by-point critique of that on all 11 points, it would be great. It does not have to be today, obviously.

Mr. SWISHER. Right.

Mr. McCLOSKEY. That would be for our records.

[The information referred to follows:]

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ADDENDUM

TO

STATEMENT

OF

RON SWISHER

PRESIDENT

NATIONAL LEAGUE OF POSTMASTERS

BEFORE

THE JOINT SUBCOMMITTEES

ON

POSTAL OPERATIONS AND SERVICES

AND POSTAL PERSONNEL AND MODERNIZATION

U.S. HOUSE OF REPRESENTATIVES

ON

FY '90 USPS BUDGET PROPOSALS

MARCH 9, 1989

DEAR CHAIRMAN MC CLOSKEY:

DURING YOUR SUBCOMMITTEE HEARINGS ON MARCH 9 ON USPS OVERSIGHT, YOU REQUESTED THE LEAGUE TO PROVIDE YOUR STAFF WITH OUR "COMPREHENSIVE ESTIMATE" OF OUR POLICY AND "FISCAL ANALYSES OF THE REAGAN-BUSH ADMINISTRATIONS' POST OFFICE BUDGET, ALLEGED BUDGET SAVINGS IN THEIR PROPOSALS"

WHILE OUR COMPLETE TESTIMONY DID ADDRESS SOME ASPECTS OF YOUR REQUESTS, WE NONTHELESS OFFER THE FOLLOWING TO MAKE OUR POSITION CLEAR.

COLA FREEZE

THE ADMINISTRATION PROPOSES A COLA FREEZE FOR FY 1990 AND THEREAFTER TO MAKE THE CSRS COLA FORMULA THE SAME AS THE FERS SYSTEM FORMULA, EQUAL TO THE CONSUMER PRICE INDEX INCREASE MINUS ONE PERCENT. THEY CONVENIENTLY OVERLOOK THE FACT THAT THE FERS SYSTEM PROVIDES FOR FULL INDEXING OF COLAS FOR THE SOCIAL SECURITY TIER OF THE PLAN, AND THE POSSIBILITY OF KEEPING UP WITH INFLATION USING THE THRIFT INVESTMENT TIER AS WELL. IN FACT, IT IS CONCEIVABLE THAT THEIR INTENT IS ALSO TO ELIMINATE CSRS COLAS BEFORE AGE 62.

INTERESTINGLY, WHEN IT COMES TO RETIREE COST-OF-LIVING ADJUSTMENTS, TREATMENT FOR SOCIAL SECURITY RECIPIENTS AND FOR CSRS RECIPIENTS HAVE VARIED WIDELY. WHILE THE CSRS COLA HAS OCCASIONALLY BEEN LOST OR FROZEN IN RECENT YEARS, SOCIAL SECURITY RECIPIENTS HAVE RECEIVED THEIR COLA EVERY YEAR -- IT IS DEEMED POLITICALLY "IMPOSSIBLE" TO CUT

THE SOCIAL SECURITY COLA. BUT IT IS POSSIBLE, EVEN POLITICALLY "POPULAR", TO ATTACK FEDERAL RETIREES. UNDER THE ORIGINAL GRAMM-RUDMAN-HOLLINGS "BUDGET BALANCING" BILL, SOCIAL SECURITY COLAS WERE TAKEN "OFF THE TABLE", WHILE FEDERAL AND MILITARY COLAS WERE THE FIRST THINGS TO BE CUT. IN JANUARY, 1986, AFTER HAVING A 3.1% COLA APPROVED IN THE BUDGET, RETIREES HAD THEIR ADJUSTMENT YANKED OUT OF THEIR CHECKS DUE TO SO-CALLED "ACROSS-THE-BOARD" CUTS. FORTUNATELY, IN THE FISCAL 1987 BUDGET RECONCILIATION BILL, THE GORTON AMENDMENT WAS ADOPTED WHICH WILL EXEMPT FUTURE FEDERAL AND MILITARY RETIREE COLAS FROM ANY GRAMM-RUDMAN-HOLLINGS "AUTOMATIC" CUTS.

ALTHOUGH INFLATION HAS RISEN 12% OVER THE LAST THREE YEARS, FEDERAL/POSTAL RETIREES HAVE NOT KEPT PACE. DOES INFLATION TREAT SOME RETIREES DIFFERENT FROM OTHERS? THE ANSWER IS OBVIOUS -- ALL RETIREES SHOULD HAVE THE SAME INFLATION PROTECTION, REGARDLESS OF POLITICAL CLOUT.

THE POSTAL SERVICE HAS ACKNOWLEDGED THAT IT SHOULD FUND COSTS ASSOCIATED WITH ITS OPERATION. AS RELATED TO THE FUNDING OF RETIREE COLA COSTS, A QUESTION ARISES AS TO WHAT PORTION OF THESE COSTS ARE PRIMARILY THE RESPONSIBILITY OF THE USPS AND WHAT PORTION ARE THE RESPONSIBILITY OF THE FEDERAL GOVERNMENT. THIS IS IMPORTANT BECAUSE THE POSTAL REORGANIZATION ACT (PRA) SPECIFICALLY STATED THAT "ALL LIABILITIES ATTRIBUTABLE TO OPERATIONS OF THE FORMER POST OFFICE DEPARTMENT SHALL REMAIN LIABILITIES OF THE GOVERNMENT OF THE UNITED STATES."

RETIREMENT BENEFITS EARNED ARE PREDICATED ON AN EMPLOYEE'S TOTAL YEARS OF SERVICE. ACCORDINGLY, THE COST OF COLAS FOR POSTAL EMPLOYEES WHO RETIRED PRIOR TO JULY 11, 1971, POSTAL REORGANIZATION DATE, SHOULD REMAIN THE RESPONSIBILITY OF THE FEDERAL GOVERNMENT. LIKEWISE, THE COST OF COLAS FOR POSTAL RETIREES WHO WERE HIRED AFTER JULY 1, 1971 MAY PROPERLY BE CONSIDERED THE RESPONSIBILITY OF THE USPS. FOR THOSE EMPLOYEES WHO RETIRE AFTER JULY 1971 AFTER WORKING FOR BOTH THE USPS AND THE POD, SOME APPORTIONMENT OF COST IS APPROPRIATE.

THE POSTAL SERVICE CURRENTLY CONTRIBUTES 7% OF BASIC PAY TO THE CSRS. UNDER LEGISLATION ADDED IN 1974, IT ALSO NOW PAYS FOR ANY INCREASE IN UNFUNDED LIABILITY OF THE CSRS ATTRIBUTABLE TO INCREASES IN BASIC PAY. THESE COSTS ARE AMORTIZED OVER 30 YEARS. THE CONTRIBUTIONS AND UNFUNDED LIABILITY PAYMENT MADE BY THE USPS IN 1988 AMOUNTED TO $1.6 BILLION. THE POSTAL SERVICE STILL DOES NOT MAKE ANY PAYMENT RELATED TO COST-OF-LIVING ADJUSTMENTS, WHICH ARE PROVIDED TO POSTAL ANNUITANTS BY LAW INSTEAD OF BY ACTION OF THE POSTAL SERVICE. BUT UNDER THE OMNIBUS BUDGET RECONCILIATION ACT OF 1987, THE POSTAL SERVICE WAS REQUIRED TO MAKE A ONE-TIME DEFICIT REDUCTIONS PAYMENT TO THE CSRS IN THE AMOUNT OF $350 MILLION.

THE POSTAL SERVICE BELIEVES THAT ANY USPS RESPONSIBILITY FOR RETIREE COLAS SHOULD BE APPLIED PROSPECTIVELY TO NEW RETIREES ONLY, REASONABLY APPORTIONED BETWEEN USPS AND OTHER GOVERNMENT SERVICE AND AMORTIZED OVER THE RETIREES' LIFE EXPECTANCY. ULTIMATELY, THE US POSTAL SERVICE WOULD PAY THE FULL COST OF RETIREE COLAS.

4

REPEAL LUMP-SUM

THE ADMINISTRATION PROPOSES REPEAL OF THE LUMP-SUM WITHDRAWAL OPTION WHICH WAS ENACTED TO HELP ALLEVIATE BURDENS IMPOSED BY THE RETROACTIVE REPEAL OF THE "THREE YEAR RECOVERY RULE".

THE ADMINISTRATION AND SOME MEMBERS OF CONGRESS SEE THE LUMP-SUM OPTION AS A DRAIN ON THE BUDGET AND BELIEVE THEY COULD SAVE AS MUCH AS A BILLION DOLLARS A YEAR BY ELIMINATING IT. WE REALIZE THAT THE 60/40 SYSTEM IS DUE TO EXPIRE IN SEPTEMBER. HOWEVER, WE URGE YOU , MR. CHAIRMAN, TO RESIST EFFORTS TO DO AWAY WITH THE PROVISION CALLING FOR A SINGLE LUMP-SUM PAYMENT.

SINCE THIS MONEY BELONGS TO THE ANNUITANT AND MUST ULTIMATELY BE PAID, THERE IS ABSOLUTELY NO SAVINGS TO BE GAINED.

HEALTH PREMIUM CONTRIBUTIONS

THE ADMINISTRATION CONTINUES IN THEIR ATTEMPTS TO REDUCE THE GOVERNMENT'S SHARE OF HEALTH PLAN PREMIUM COSTS FOR ITS EMPLOYEES, IGNORING THE FACT THAT HEALTH COSTS CONTINUE TO OUT-DISTANCE INFLATION INCREASES BY A TWO TO ONE MARGIN. THE RESULT HAS BEEN THAT FEDERAL EMPLOYEES ARE COMPELLED TO ENROLL IN LOW COST PLANS THAT FAIL TO PROVIDE EVEN BASIC COVERAGE. IN FACT, STUDIES SHOW THAT FEDERAL EMPLOYEES PAY FAR MORE FOR HEALTH BENEFITS THAN EMPLOYEES IN THE PRIVATE SECTOR.

THE ADMINISTRATION'S PROPOSAL TO CHANGE THE PRESENT WEIGHTED METHOD OF PREMIUM SHARE COMPUTATION USING THE SIX LARGEST PLAN'S HIGH OPTION TO USING ALL PLANS BASED ON ENROLLMENT IS NOTHING MORE THAN A BACKDOOR INCREASE IN THE EMPLOYEES' SHARE OF HEALTH CARE COSTS. IN REALITY -- A PAYCUT!

BY FORCING HIGHER EMPLOYEE CONTRIBUTIONS TOWARD THEIR HEALTH COSTS -- THEY ALLEGE A SAVINGS OF $318 MILLION.

ON THE ISSUE OF FEDERAL GOVERNMENT PAYMENT OF THE EMPLOYER'S PORTION OF HEALTH INSURANCE PREMIUMS FOR SURVIVORS OF POSTAL RETIREES AND FOR POSTAL EMPLOYEES WHO RETIRED PRIOR TO OCTOBER 1, 1986, THE ADMINISTRATION PROPOSES A SHIFT OF ALL COSTS TO THE USPS.

FROM JULY 1, 1971 THROUGH SEPTEMBER 30, 1986, THE FEDERAL GOVERNMENT PAID 100% OF THE EMPLOYER COST OF HEALTH INSURANCE FOR ALL RETIREES OF THE OLD POST OFFICE DEPARTMENT (POD) AND ALL NEW RETIREES FROM THE USPS. UNDER THE CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT OF 1985, P.L. 99-272, THE POSTAL SERVICE BEGAN PAYING THE EMPLOYER COST OF HEALTH INSURANCE FOR ALL RETIREES FROM THE USPS AFTER SEPTEMBER 20, 1986, PROSPECTIVELY.

WHILE THIS 1985 ACT WAS ENACTED IN PART AS A BUDGETARY REDUCTION MEASURE, IT ALSO WAS INTENDED TO ADDRESS GROWING CONCERN RELATING TO HIDDEN FEDERAL SUBSIDIES TO THE USPS. BY ASSIGNING THE POSTAL SERVICE PROSPECTIVE LIABILITY FOR NEW RETIREES, IT IN EFFECT MADE A ROUGH ALLOCATION OF RESPONSIBILITY BETWEEN THE GOVERNMENT AND THE POSTAL SERVICE APPROXIMATELY ACCORDING TO EMPLOYEE TIME PUT IN BEFORE AND AFTER POSTAL REORGANIZATION.

THE OFFICE OF MANAGEMENT AND BUDGET (OMB) RECENTLY PROPOSED THAT THE USPS FUND THE EMPLOYER HEALTH INSURANCE COSTS FOR ALL POSTAL RETIREES. THIS WOULD INCLUDE BOTH POD AND USPS RETIREES. THE POSTAL SERVICE BELIEVES THAT P.L. 99-272 PROVIDES A REASONABLE METHOD OF ALLOCATING THE COSTS BETWEEN THE USPS AND THE POD. WHILE NOT NECESSARILY THE MOST PRECISE METHOD.

OVER A HALF-MILLION POSTAL EMPLOYEES ARE ENROLLED IN THE FEHBP. THE U.S. POSTAL SERVICE IS EXPLORING THE FEASIBILITY OF WITHDRAWING FROM THE FEHBP AND OFFERING POSTAL WORKERS AN AGENCY HEALTH PLAN. A WITHDRAWAL FROM THE PROGRAM BY USPS COULD DISENFRANCHISE CURRENT POSTAL ENROLLEES AND THEIR FAMILIES FROM THE FREEDOM OF CHOICE CONCEPT AND DENY THEM HEALTH CARE EQUAL TO THEIR PRESENT COVERAGE.

THE LEAGUE IS OPPOSED TO ANY EFFORT OF ADVERSELY TAMPERING WITH THE HEALTH CARE OF FEDERAL/POSTAL EMPLOYEES. WE DO COMMIT TO A PARTNERSHIP APPROACH TO ANY FEHBP REFORM PROCESS.

ELIMINATE REVENUE FOREGONE AND OTHER INDIRECT SUBSIDIES

THE ADMINISTRATION PROPOSES VIRTUAL ELIMINATION OF THE REVENUE FOREGONE SUBSIDY, CURRENTLY AT ABOUT $500 MILLION PER YEAR. THE ABSOLUTE MINIMUM REQUIRED TO MAINTAIN CURRENT RATE LEVELS. THIS SUBSIDY HAS ALREADY BEEN REPEATEDLY WHITTLED AWAY, CAUSING SEVERAL PREFERRED RATE INCREASES. REVENUE FOREGONE IS A SUBSIDY APPROPRIATED FOR PREFERRED MAILERS, AND NOT FOR THE POSTAL SERVICE,

AS MANY IN THE ADMINISTRATION AND BUSINESS COMMUNITY LEAD THE PUBLIC TO BELIEVE. OUTRIGHT ELIMINATION OF THAT SUBSIDY WILL FORCE MANY NON-PROFIT MAILERS TO DISCONTINUE SENDING INFORMATION TO THEIR MEMBERS, OR ELSE TO PAY EXORBITANT RATE INCREASES. EITHER WOULD HAVE THE EFFECT OF HEADING US TOWARD A NEWS-SUPPRESSED SOCIETY, AND WOULD CERTAINLY BE CONTRARY TO THE VERY PURPOSE FOR WHICH THIS APPROPRIATION WAS ESTABLISHED -- TO ENCOURAGE A FREE FLOW OF INFORMATION AT AFFORDABLE RATES.

THE ADMINISTRATION HAS ASKED THE CONGRESS TO DO A NUMBER OF THINGS WHICH COULD PLAY HAVOC WITH THE U.S. POSTAL SERVICE'S ABILITY TO MAINTAIN POSTAL RATE STABILITY.

THEY PROPOSE THAT POSTAL SERVICE CONTRIBUTIONS TO THE CSRS FUND BE GRADUALLY INCREASED UNTIL THE POSTAL SERVICE IS FULLY FUNDING THE GOVERNMENT'S SHARE OF POSTAL EMPLOYEE PENSIONS. THIS IS IN ADDITION TO THE GREATLY INCREASED COSTS WHICH THE USPS IS ALREADY FACING FROM ENACTMENT OF THE FERS PROGRAM, WHICH IS FULLY AGENCY FUNDED. WE REPEAT, THIS GOAL WILL EVENTUALLY BE ACCOMPLISHED IN A MORE REASONABLE MANNER AS MORE POSTAL EMPLOYEES LEAVE THE CSRS AND THEIR REPLACEMENTS ENTER THE AGENCY-FUNDED FERS.

POSTAL PAY CUTS

THE POST OFFICE COMMITTEE SAID IT BEST. "THIS IS ABSURD." WHILE POSTMASTERS ARE NOT A PARTY TO COLLECTIVE BARGAINING, WE WHOLE HEARTEDLY SUPPORT THE PRINCIPLES OF A LABOR CONTRACT.

8

FEDERAL PAY

FEDERAL EMPLOYEE PAY IS MORE THAN 20 PERCENT BEHIND THEIR COUNTERPARTS IN THE PRIVATE SECTOR AND HAVE CONTINUED TO FALL BEHIND POSTAL SALARIES.

ALTHOUGH POSTAL SALARIES ARE DETERMINED SEPARATELY FROM THOSE OF CIVIL SERVANTS, ALL POSTAL AND FEDERAL EMPLOYEES SHARE THE SAME RETIREMENT SYSTEM, HEALTH BENEFITS, AND RETIREE COST-OF-LIVING ADJUSTMENTS (COLAS). THESE BENEFITS SHOULD BE LOOKED UPON AS INTEGRAL ELEMENTS IN THE TOTAL COMPENSATION PACKAGE -- JUST AS THEY WOULD BE UNDER A PRIVATE EMPLOYER -- AND NOT AS "GIVE-AWAYS".

POSTAL MATTERS GENERALLY

WE BELIEVE THAT ADDITIONAL FINANCIAL REQUIREMENTS IMPOSED ON THE POSTAL SERVICE WILL END POSTAGE RATE STABILITY, AND WILL PLAY INTO THE HANDS OF THE CORPORATE PREDATORS WHO WOULD DESTROY A UNIVERSAL POSTAL SYSTEM IN THIS NATION FOR PERSONAL PROFIT.

H.R. 982, A BILL TO REMOVE THE U.S. POSTAL SERVICE OFF OF THE PRESIDENT'S UNIFIED BUDGET HAS BEEN INTRODUCED BY CONGRESSMAN MICKEY LELAND, DISTINGUISHED CHAIRMAN OF THE SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES.

CHAIRMAN LELAND HAS BEEN JOINED BY MORE THAN 300 MEMBERS AS COSPONSORS TO H.R. 982. IN ADDITION, A SIMILAR BILL S. 302 HAS 74 COSPONSORS.

THIS LEGISLATION IS INTRODUCED IN BOTH HOUSES OF CONGRESS TO RESTORE THE POSTAL SERVICE TO ITS PRIOR OFF-BUDGET STATUS, AND TO EXEMPT THE SERVICE FROM STATUTORY DEFICIT CONTROL MEASURES. THIS LEGISLATION IS WIDELY SUPPORTED BY THE POSTAL COMMUNITY, AND PASSED THE HOUSE BY A WIDE MARGIN IN 1988. ALSO, LAST YEAR THE SENATE EXPRESSED WIDE-BASED SUPPORT FOR THE ISSUE IN A SENSE OF THE SENATE RESOLUTION, THE PROPOSED LEGISLATION DID NOT COME TO A VOTE BEFORE THAT BODY.

MOVING THE POSTAL SERVICE OFF-BUDGET WILL HAVE A POSITIVE IMPACT ON THE FEDERAL DEFICIT. IT SHOULD BE NOTED THAT THIS ACTION IN NO WAY REDUCES CONGRESSIONAL OVERSIGHT OF POSTAL ACTIVITIES THE POSTAL SERVICE ALLEGES THAT MOVING THE SERVICE OFF-BUDGET WILL REFLECT A $2.2 BILLION REDUCTION TO THE DEFICIT IN 1990, AND 7.5 BILLION DOLLARS OVER THE NEXT FIVE (5) YEARS. THESE ESTIMATES ARE PREMISED ON A STATUTORY BREAK-EVEN PERFORMANCE IN 1991-1994.

IT WOULD APPEAR TO US THAT THIS IS A PAINLESS WAY TO REDUCE THE FEDERAL DEFICIT AND CERTAINLY LESS HARMFUL TO FEDERAL/POSTAL EMPLOYEES AND ANNUITANTS.

THE NATIONAL LEAGUE OF POSTMASTERS IS PREPARED TO ASSIST YOU AND YOUR STAFF IN YOUR UNTIRING EFFORTS TO FIND REASONABLE SOLUTIONS TO THE PROBLEMS CONFRONTING THIS SUBCOMMITTEE, AND TO MAKE CERTAIN THAT THE FEDERAL GOVERNMENT HONORS ITS COMMITMENT TO ITS EMPLOYEES.

THANK YOU, MR. CHAIRMAN, FOR PROVIDING US THIS OPPORTUNITY TO FULLY EXPRESS OUR VIEWS ON THIS ISSUE. WE STAND READY TO ASSIST YOU AND YOUR STAFF IN ANY MANNER YOU MAY REQUIRE.

Mr. McCLOSKEY. I would just say that one of those called for a lower rate for all governmental mail, I guess to be set, I do not know, by the Administration or the Congress.

To me, it is an unusual step. Does anyone have any comments or suggestions on that?

Mr. SWISHER. Whenever anyone gets a lower rate of postage, the additional cost for handling that mail has got to come from somewhere. So I have not seen where it would be proposed that that would come from. I would not want that additional money to come from the users of other classes.

I think we have got to be careful about that.

Mr. McCLOSKEY. And we have a rate-making commission, obviously, for such decisions.

Mr. SWISHER. Yes.

Mr. McCLOSKEY. I notice you covered this in your statements, but I would ask you to elaborate. What is the practical effect on morale and efficiency of a 2 percent raise for postal employees, Mr. Ogle?

Mr. OGLE. I do not think they are quite as concerned about the pay raise as they are the deterioration of the service. I think our people have a great deal of pride in the Postal Service and have a great deal of pride in the service that they perform for the country.

I think they hate to see service deteriorate. I believe that our people have realized that we can no longer afford to be selfish in a lot of our motives in a lot of the things that we ask for. But we have to do what is best for the Postal Service and what is best for the American people.

I think we are more concerned about deterioration of service, lack of facilities, lack of mechanization equipment, than we are about the pay raise. I think the 2 percent pay raise is satisfactory with our people.

Mr. SWISHER. I would say on the line of compensation, it was disappointing, as I am sure it was to you people, disappointing when the Executive pay raise did not go through, Congressional and Executive, because of the compression, the salary compression that we have in the Postal Service.

When you consider there are 800,000 employees, there is not a really great deal of difference between very low-salaried employees and the Postmaster General. So that would have been encouraging had that gone through.

Mr. OGLE. I think the 2 percent raise, too, is a collective bargaining issue.

Mr. McCLOSKEY. Yes. That is one of the things I was trying to get at, Mr. Ogle.

Mr. PALLADINO. Yes, that is not an issue with the postal supervisors either. The raise would have helped because it would have left more room open to the compression. But our interest is in the facilities. Not only do we need facilities for population growth to put in the new equipment that is coming, but we already have many, many facilities that are outdated. And the supervisors are hungry for room to be able to do a better job.

Mr. SWISHER. There are two things there, too, Mr. Chairman. We have property that should be purchased now and we do not have the capital to purchase the property. Then, the other thing is, we have property that was purchased many years ago, planned to be

built on now, and we had to delay the building. Therefore, the cost of the construction just continues to go up, while the cost of operating at that site are sometimes 50 percent or more higher than if we had the new facility.

Mr. OGLE. I just think it does not make good business sense, at a time when mail volumes are increasing, for us to cut back on facilities and cut back on mechanization. I think any private industry that followed that kind or practice would soon be out of business.

We hate to see the public lose confidence in us to the point that they do not support us any longer. And it is a situation where our hands are being tied.

Mr. MCCLOSKEY. Well, hopefully we will get the off-budget bill through both Houses with overwhelming majorities.

How do you feel about the quality of worklife initiative and management by participation process, which the Postal Service has recently implemented. Mr. Swisher?

Mr. SWISHER. Well, yes, I sat on the national steering committee for management by participation. And I am hopeful, I know it is not a panacea and I know that it as not going to be a quick fix, but we have to start somewhere, and that has started.

I appreciate the attitude of Postmaster General Tony Frank, who is doing everything that I know he could do to get that attitude down through the ranks. We have a large area to cover between the first-line supervisor, who really needs that, and the people right under Mr. Frank.

We are getting there. I feel encouraged I guess in one word.

Mr. MCCLOSKEY. Mr. Palladino.

Mr. PALLADINO. Well, I am a little frustrated at the fact that we need a program to do this type of thing in the Postal Service to begin with. But, I am happy that it is beginning. And, hopefully, it will move a lot faster than we have had other plans in this area move, such as MI, and a lot of different processes, which were doomed to failure. And hopefully, MBP, since it has a national steering committee, will be successful.

Mr. MCCLOSKEY. Would any of you care to comment on the automation scene right now? How is that going? Are we getting any cost savings?

Mr. SWISHER. Well, to my knowledge, none of us is expert in automation, but I have been involved with it and around it enough to know that where we are being automated, we are realizing some very nice savings.

I think we should continue to pursue that to the point and not including the point where we started to hamper the mailer. We have always got to be mindful of what is best for the customer and automation is best for the customer insofar as it holds down our costs, therefore, holding down postage rates.

But, yes, automation is going along very well and we are starting to look at what we can do to automate, if you will, the delivery of mail. Right now, that is where we are very labor intensive.

Mr. PALLADINO. I believe it is more imminent than anything. In the past, when they told you something was coming, it was not realized for many, many years. But I can see our mechanics are being trained, our supervisors are being trained, the equipment is coming into facilities day after day. And I think an increased

volume of mail will be put onto those machines. It is a little slow now, but I think we are working hard to meet our promise of everything in code by 1995.

Mr. McCLOSKEY. Would you say there is a promising role for casuals in the workforce as envisioned by the Postmaster General? There is not a final plan yet, but I guess Mr. Frank hopes to come out with an initiative like that fairly soon.

Mr. OGLE. I think in a lot of offices there certainly is. We have a lot of places in this country that have an uneven flow of mail, and with casuals you could certainly handle that much better.

There are some places where you do not have that, but there are a lot that do. For instance, the area that I come from, Gatlinburg, Tennessee, we do not need people all year long, but there are times when we have such crowds of people that casuals would be very, very helpful.

Yes, I see that as certainly an asset in some areas.

Mr. SWISHER. The casuals in some areas are going to have to receive more pay than we are presently giving them, because what is happening is we are training them and spending not a great deal of money, but we are training them and spending that money training them. And then they are gone.

They either get a better paying job or, by our own rules, we can only keep them so many work days.

Mr. OGLE. I think there ought to be some way, as vacancies become available, if these people are good employees, I think maybe on the word of the Postmaster or on he word of the supervisor, there ought to be some way, if these people are doing a good job, that they could have some assurance of a job and could be blanketed into the system rather than just six months and then off.

Mr. McCLOSKEY. I appreciate your concerns.

Is there any other area of concern that any of the three of you gentlemen would care to bring up?

[No response.]

Mr. McCLOSKEY. Thank you for your testimony.

Mr. PALLADINO. Thank you.

Mr. OGLE. Thank ygu very much.

Mr. SWISHER. Thank you.

Mr. McCLOSKEY. Our next panel consists of Mr. Gene A. Del Polito, executive director of the Third Class Mail Association; Richard A. Barton, senior vice president of the Direct Marketing Association; and also Mr. Michael Fisher, recently arrived, chairman of the board of the Parcel Shippers Association.

I would say thank you, gentlemen, for being here.

STATEMENT OF GENE A. DEL POLITO, EXECUTIVE DIRECTOR, THIRD CLASS MAIL ASSOCIATION

Mr. DEL POLITO. Mr. Chairman, my name is Gene Del Polito, I am executive director of the Third Class Mail Association and I am delighted to be able to be here with you to share some of TCMA's views regarding the President's budget and his related legislative proposals.

In the written statement, which we have provided you, we have set forth our views in greater detail and in the interest of brevity I will just summarize some of these views today.

We believe that Congress rightly concluded at the time of postal reorganization that the good works that are performed by the nation's charitable, religious, educational, scientific and philanthropic organizations really benefit the Nation as a whole and that the Nation should really pay to support these organizations' use of the mail and not just some subset of mailers.

We believe this still makes for good policy just as it did back then. And we urge Congress to continue to fund any postal rate preferences through the annual revenue foregone appropriation.

We believe that the Administration's proposal to require regular rate postal users to shoulder preferred rate mailers' institutional overhead costs would destroy a basic tenet of modern postal reorganization and would amount to nothing more than an unfair, costly, hidden tax on postal users that would do absolutely nothing to improve the level or the quality of services that they receive.

And, in many respects, it would also be tantamount to requiring these mail users to make a mandatory contribution to charities, religions and other organizations they otherwise might not to choose to support.

So we ask you to reject that proposal.

Father Beiting, this morning, I think gave as eloquent a testimony as anybody as to what is the likely impact on charitable organizations from a cessation of revenue foregone, and I certainly concur with many of the views that he set forth today.

We do not share the Administration's belief that productivity gains or other operational savings would supplant the need for a revenue foregone appropriation. Given the Postal Service's recent poor record on productivity gains, we believe it would be unwise to expect that savings from improvements in postal productivity would be sufficient to substitute for a Congressional appropriation.

We believe there is little merit to the argument that the preservation of the revenue foregone subsidy will encourage wasteful use of preferred mailing privileges. Nonprofit rate mailers are doing more today than ever before to make sure that the mail that they present is presented in as least costly a manner as possible.

And while there are some abuses of preferred rate mailing privileges that still may exist, many nonprofit rate mailers already have done much to cease these uses of preferred rates for activities that are unrelated to the organization's tax-exempt purposes.

In testimony that we presented before the Postal Rate Commission, we recommended the use of an unrelated business use income test to distinguish between mailing activities that should qualify for posting at regular or nonprpfit rates. And we continue to recommend such a test today.

Requiring the Postal Service and postal rate payers to assume all postal retiree costs, including those associated with the Post Office Department retirees and other retirement credits from previous military or other federal employment would prove extraordinarily costly and would have devastating effects on the Postal Service and postal users.

We urge Congress to limit any new postal retirement liability to those incurred with the commencement of the new fiscal year in an amount that would reflect only a retiree's years of Postal Service employment. And we would urge, further, that these new retirement costs be phased in over a period of years to ease the impact on postal users.

Again, we thank you for the opportunity to express our views. And, of course, we would be delighted to answer any questions you may have.

[The statement of Gene A. Del Polito follows:]

COMMENTS OF THE

THIRD CLASS MAIL ASSOCIATION

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We at the Third Class Mail Association (TCMA) appreciate this opportunity to share our views on the President's proposed budget for fiscal year 1990 and the legislative proposals advanced by the administration to accomplish its ends. TCMA is a national association of for-profit and nonprofit firms and organizations that use third class mail as an advertising, marketing, or fund raising medium and firms that serve such mail users. Even though the members of our association rely heavily on third class mail for advertising and marketing purposes, they characteristically use a broad spectrum of postal services in the conduct of their business. Mail, for many, serves as their primary (if not their only) retail outlet.

The members of our association historically have had a vested interest in the continued vitality of the U.S. Postal Service (USPS). The proposals advanced by the administration, we believe, would affect adversely the health and well-being of the Postal Service and the many businesses and organizations that rely on mail as a vehicle for transacting business.

In these comments, we will focus on specific recommendations advanced by the President affecting postal finances and operations, including his proposals to:

(1) eliminate the annual appropriation provided to the Postal Service in compensation for revenue that is forgone to provide postal rate preferences to certain qualified mailers,

(2) eliminate reduced postal rates for political advocacy mail, commercial seminar companies, and high advertising content mail,

(3) continue a preferred rate structure for certain religious, charitable, and small commercial newspapers supported by postal 'productivity gains' and/or by requiring full-rate postal payers to pay through higher rates the institutional cost contributions lost through the preferred rate structure,

(4) establish a new mail subclass for government mail which ostensibly is easier and cheaper to handle than other mail, and

(5) terminate all payments to the Postal Service for postal retiree annuity cost-of-living adjustments (COLAs) and health benefits.

ON REVENUE FORGONE

At the time of postal reorganization, Congress mandated that the costs associated with servicing the various classes of mail should be recovered from the users of that mail, and that no class of mailers should be expected to pay for costs incurred by the Postal Service to serve other classes. Congress recognized, however, that there were works carried on by certain nonprofit organizations and others that provided a special benefit to the nation. It wanted to encourage this work, and it directed the Postal Service to provide preferences in the form of reduced postal rates to these special mailers. To ensure that these preferences would not come at a cost to others, Congress authorized a permanent annual appropriation to the Postal Service to recover any forgone revenue (such as the recovery of postal overhead costs) resulting from these postal rate preferences. The principle underlying this authorization was the belief that since the nation as a whole benefits, the nation, and not any subset of the nation (such as a particular class of mailers), should pay.

Over the years, TCMA has steadfastly supported this principle. The administration's proposal to end the annual revenue forgone appropriation and to continue postal rate preferences for some mailers but at the expense of others in the form of higher regular rates is unconscionable and would destroy a basic tenet of postal reorganization.

We believe that a sounder postal policy would be to maintain the requirement that rates charged to the users of each class and subclass of mail should be sufficient to recover: (1) the costs that result from providing any class or subclass of mail service and (2) a "fair share" portion of the Postal Service's institutional (overhead) costs. We continue to support the principle that postal rate preferences given to certain categories of mailers in recognition of the special, beneficial work they perform for the nation should be paid by a contribution from the nation as a whole (in the form of an appropriation from the Treasury) and not from a subset of the nation (regular rate mailers) through higher regular postal rates.

We believe there are sound reasons for leaving the current method of funding intact. Without a revenue forgone appropriation, it would be impossible to maintain a preferred postal rate structure without enacting something like the administration's "cross-subsidy" proposal, which is really nothing more than an unfair, unjustifiable, costly, hidden tax on postal users that would do nothing to improve the level or quality of service mail users receive.

We see no reason for this Congress to labor under the delusion that the requisite funds to support a preferred rate structure would come from postal "productivity" gains. We think the Postal Service's recent productivity record speaks for itself. In his annual report to Congress, the Postmaster General

noted that last year, the Postal Service experienced an almost imperceptible 0.1% gain in total factor productivity. When contrasted with the nonfarm private sector's (the sector against which the USPS compares its performance) multifactor productivity gain of 1.0%, the USPS' performance is most disheartening. To make matters worse, FY 87's much touted 0.1% productivity gain proved illusory as refined postal figures now reveal a productivity decrease for that fiscal year when compared to the year before.

No one would like to see Congress spur postal management to improve the Service's dismal performance more than mailers. We don't believe, however, that the nation is well-served by directing, as the administration would, where and how operational savings should be made. While Congress is empowered to hold postal management accountable for its stewardship of the nation's postal system, managing the day-to-day operation of that postal system is and should remain the prerogative of the Service's hired staff. While some of the administration's suggestions for savings may have some merit, we believe it is up to postal management to determine whether any proposed operational changes are feasible or preferable.

It should be emphasized that current postal law clearly empowers the Postmaster General to require nonprofit mail users to pay higher rates if an appropriation is not forthcoming. Nonprofit postal rates would have to rise by as much as 40% to compensate for the lost revenue. A rate increase of this magnitude would affect significantly and adversely many humanitarian programs operated by nonprofit organizations that provide food, shelter, educational, spiritual and material aid to disadvantaged, poor, disabled, elderly, troubled, and starving persons in the United States and around the world.

We believe there is little merit to the argument that preservation of a revenue forgone subsidy would encourage wasteful use of preferred mailing privileges. The Postal Service's most recent report on revenue, pieces, and weight of mail by class (for quarter one of postal fiscal year 1989) clearly shows that nonprofit mail has grown in the less costly, more finely presorted categories (five-digit and carrier route presort mail), while the most costly category (basic presort) has experienced an 8.4% volume decline when compared to a similar period last year. Clearly, nonprofit rate mailers are doing much more than ever before to make their mail as least costly as possible.

ON PREFERRED RATE REFORM

The administration proposes to curtail the use of preferred rates for advertising purposes, stop the use of favored library rates by publishers and distributors, and limit qualification as a nonprofit "educational" organization to organizations providing teacher-student instruction. Supposedly, these proposals are based on recommendations to Congress from the Postal Rate Commission. We will leave it to others to address the issue of preferences for second and fourth class mail. We intend to limit our comments to those provisions that would affect users of preferred rate third class mail.

In our testimony to the Postal Rate Commission on the matter of preferred rate reform, we noted that most of those who are entitled to reduced, nonprofit, third class rates use their special postal privileges in a manner consistent with Congress' intent. There are others, however, who abuse these privileges by using reduced, nonprofit rates to engage in commercial activities that are not primarily related to their nonprofit tax-exempt purpose. TCMA advanced in its testimony an unrelated business income test to help distinguish between

legitimate and illegitimate uses of nonprofit postal rates. [A copy of our testimony to the commission can be provided to the Committee if it so desires.] The rate commission advanced a variation on this theme for one of its recommendations to Congress.

To date, little has been done on the matter of preferred postal rate reform. Whether anything further should be done is a matter for Congress to decide. Many nonprofit rate mailers have begun to police their own mailing practices to eliminate uses of preferred rate mail that appear inconsistent with Congress' original intent. Many of those who represent the interests of nonprofit mail users, including TCMA, have urged their nonprofit organizational constituents to use preferred mailing privileges only in conjunction with activities that relate directly to the nonprofit organization's tax exempt purpose. The rule of thumb we've advanced is: If a mailing activity yields income that is subject to the unrelated business income tax, use regular rate bulk third class mail. We believe this test is sound regardless of whether it is applied to a religious, charitable, educational, scientific, philanthropic or other privileged organization.

ON THE PROPOSED GOVERNMENT MAIL SUBCLASS

We must defer to the Postal Service on whether sufficient data exist to support the assumption that government mail demonstrates the requisite characteristics that warrant creation of a special subclass. To the best of our knowledge, the records the Postal Service has maintained on government mail are incomplete at best. We believe it is extremely premature to authorize in law the creation of a new mail subclass on which little definitive data exist--especially if the premise for the creation that subclass is to produce savings for the purposes of deficit reduction.

ON INDIRECT POSTAL SUBSIDIES

The administration is advocating for the Postal Service to assume all indirect subsidy costs associated with postal retiree COLA and health benefits--including the costs associated with those who retired from the former Post Office Department and those who earned retirement benefits as employees of the military other federal departments and agencies. This would require the users of the Postal Service to absorb an additional $2.6 billion annually in new costs in the form of higher rates. Even if this burden is phased in over a period of years, the costs of such a transfer to postal users still would be quite significant.

TCMA believes it is unfair to expect customers of the Postal Service to assume a financial burden that, in large part, does not result from the provision of post-reorganization postal services (as is the case with Post Office Department retirees or Postal Service employees with a record of military service or other federal employment). We believe, however, that it is reasonable to expect postal users to shoulder that share of postal retirement costs that result only from Postal Service employment. We believe that fairness would dictate that the costs assumed by postal users involve only those costs associated with postal employees who retire after October 1, 1989. We would urge Congress to consider amortizing these retirement related expenses over a period of years to help mitigate their impact on postal costs and rates.

THE ADVERSE EFFECTS OF HIGHER RATES

Last year, the Postal Service implemented new rates which were designed to provide $4.5 billion in new revenue. This was the largest revenue increase in recent postal history. The impact of the resultant postal rate increases hit hardest on those who rely on the mail as their primary means for transacting

business. Roughly 95% of all mail carried by the Postal Service today is business-related. It only follows, then, that any adverse effects of postal rate rises are felt most acutely by business users of the mail.

The April 1988 postal rate increase hit the third class mail community especially hard. Third class mail rates rose on average by 25%. The real increase for many third class mail users, however, was more in the neighborhood of 30%. The effect has been devastating to many within the third class mail community. Many who depend on third class mail as their primary means of marketing services and goods have had to scale back their mailing plans, because of the significant jump in mailing costs. But that's only part of the story.

The third class mail industry consists not only of those who actually market and advertise by mail (those who ultimately pay the postage bill), but also the many companies that support the use of mail as an advertising, marketing, and fund raising medium (e.g., letter shops, direct marketing advertising agencies, advertising copy writers and designers, printers, envelope manufacturers, paper manufacturers, computer service firms, list managers and brokers, database managers, and others). This is an industry that is extremely volume sensitive. When mail volume growth declines, the business these companies enjoy declines as well.

According to the Postal Service's revenue/volume figures for the first quarter of the current fiscal year, regular rate third class mail growth, which at one time was in the double digit range, grew by only 0.9% when compared to a similar period of a year ago. That precipitous change in mail volume growth has had a substantial and harmful effect on all sectors of the mail advertising industry.

THE SPECIAL ROLE OF ADVERTISING MAIL

It's important to appreciate the special role advertising mail plays in our nation's economy to understand the real impact of mail rate increases. To those who are members of TCMA and many who are not, third class mail is the primary vehicle by which they market their goods and services. While other media may serve as an alternative to mail, the ability to use mail in a broadcast fashion to reach a wide audience or to target an audience with specific demographic and psychographic characteristics makes it an especially powerful and important business communications tool.

Advertising mail serves the same purpose of advertising in other media. It's designed to generate business--business that adds to the nation's output of goods and services--business that generates the money needed to employ people, to pay their salaries and other employment related benefits (health insurance, life insurance, disability insurance, dental insurance, retirement benefits), to pay the federal, state, and local taxes that make vital services available to the public, and to provide for other philanthropic and charitable purposes.

Advertising mail provides the Postal Service with substantial benefits. It provides the work that's needed to enable the Postal Service to operate more efficiently, and to keep its workforce fully employed. The business that comes from advertising mail often results in increased use of other, profitable postal products. For instance, solicitations for mail order goods often result in fulfillment by parcel post; solicitations for books and records result in fulfillment by third class or book rate mail; solicitations for magazine subscriptions result in fulfillment by second class mail; and all mail-related business transactions result in billings and payments that travel by first class mail.

When mail volume drops because of higher rates, the efficiency with which the Postal Service uses its labor resources declines. For instance, postal management recently told the Board of Governors that field personnel were having difficulty 'managing down,' i.e., adjusting downward labor inputs to accommodate for a slower growth in mail volume. As a consequence, postal productivity suffered enormously, which will have adverse consequences to all users of the mail who will have to cover the costs resulting from this resource waste in the form of still higher rates.

When postal costs rise significantly, postal rates rise as well. When postal rates rise significantly, mail's value and affordability as a cost-efficient business communications tool is adversely affected. When mail's value drops, the use of the mail drops as well--and this drop in mail usage comes at a cost not only to business, but also to the nation.

For instance, the cost of a fairly typical mail marketing piece runs about $400 per thousand pieces. That means that for every one billion pieces that are lost to the Postal Service because of higher postal rates, roughly four hundred million dollars in marketing-related expenditures (printing, direct mail campaign development, mail piece design, copy writing, envelope manufacturing, letter shop services, computer-related services, list rentals, and more) are lost to the economy. That, of course, does not take into account the additional loss to the Postal Service in the form of other downstream mail or economic effects felt elsewhere in the economy.

SUMMARY AND RECOMMENDATIONS

We urge Congress to consider carefully the effects that would result from enacting the administration's proposals.

* Congress rightly concluded at the time of postal reorganization that the good works performed by the nation's charitable, religious, educational, scientific, and philanthropic organizations benefit the nation as a whole and that the nation, and not a subset of mailers, should pay to support these organizations' use of the mail. We believe this still makes for good policy, and we urge Congress to continue to fund any postal rate preferences through the annual revenue forgone appropriation.

* Requiring regular postal rate payers to shoulder the institutional overhead costs that more rightly should be borne by nonprofit rate mail users would destroy a tenet of modern postal reorganization and would amount to nothing more than an unfair, costly, hidden tax on postal users that would do nothing to improve the level or quality of services these mail users receive. We urge Congress to reject the administration's proposal to have regular rate payers help fund nonprofit postal rates.

* Eliminating the annual revenue forgone appropriation without providing an alternate funding source would endanger the vital and valuable work performed by many of this nation's charitable, religious, educational, scientific, and philanthropic organizations.

* Given the Postal Service's poor record on productivity gains, it would be unwise to expect that savings from improvements in postal productivity would be sufficient to substitute for a congressional appropriation for revenue forgone.

* There is little merit to the argument that preservation of the revenue forgone subsidy will encourage wasteful use of preferred mailing privileges. Nonprofit rate mailers are doing more today than ever before to mail in the least costly manner.

* While some abuses of preferred rate mailing privileges may exist, many nonprofit rate mailers already have done much to cease the use of preferred postal rates for activities that are unrelated to the organizations' tax-exempt purposes. TCMA has recommended the use of an unrelated business income test to distinguish between mailing activities that qualify for posting at regular or nonprofit mail rates.

* The data needed to justify the assumption that establishment of a government mail subclass will contribute to deficit reduction do not exist.

* Requiring the Postal Service, and postal rate payers, to assume all postal retiree costs, including those associated with Post Office Department employees and others with retirement credits from previous military and other federal employment, would prove extraordinarily costly and would have devastating effects on the Postal Service and postal users. We urge Congress to limit any new postal retirement liability to those incurred with the commencement of the new fiscal

year in an amount that would reflect only a retiree's years of Postal Service employment. We urge further that these new retirement costs be phased in over a period of years to ease the impact on postal users.

We hope you find these comments helpful. If we can be of assistance in any way on this, please consider TCMA at your service.

Mr. McCLOSKEY. Thank you, Mr. Del Polito.
Mr. Barton.

STATEMENT OF RICHARD A. BARTON, SENIOR VICE PRESIDENT, DIRECT MARKETING ASSOCIATION

Mr. BARTON. Mr. Chairman, it is a pleasure to be here today in very familiar circumstances.

I am Richard Barton, senior vice president for government affairs of the Direct Marketing Association, an association with 3,000 corporate members who are very concerned about increasing costs in the Postal Service.

We are involved in all phases of direct marketing, but the mail is still the foundation of many of our operations. We share your concern with the problems that the Postal Service is facing.

We are concentrating today essentially on President Reagan's budget, since President Bush's budget is pretty much of a mystery to most of us, I think, in the postal area.

We share the Administration's concerns about rising postal costs. We would like to do what the Administration and the Postal Service, I think, would like to do, which is reduce costs or at least put a lid on them.

Unfortunately, budget proposals that are pending before you today do not do that. In fact, they are a hodgepodge of inconsistent proposals, most of which we think should not be accepted by Congress and or the Administration.

A few specific comments that will go along pretty much with Mr. Del Polito's on revenue foregone. And also, I would like to add to this the creation of a sub-class for government mail. We are talking about legislative rate making in both of these areas.

In the revenue foregone area, we have always supported the subsidies for nonprofit mail, thinking that these subsidies should come from the taxpayer. We certainly cannot accept the assumption that if a subsidy is not granted, that therefore the other ratepayers should pay for it.

This is in direct opposition to the original purposes of the Postal Reorganization Act. This is completely unacceptable to mailers and it should be unacceptable to Congress.

The creation of a subclass for government mail, as was well discussed by Cary Baer this morning from the Magazine Publishers Association, is really legislative rate making. We do not know what would happen with this. We should not be creating new subclasses by legislation. If we are going to do this, we should be doing it through the regular postal rate-making process.

We are talking about adding costs to the Postal Service and, very dramatically, people have talked about the problems that we have had with Congress and the Administration adding costs to the Postal Service in the last budget go-around.

We think that there needs to be a lid on costs. We think even maybe some of the proposals that the Administration is making may be intelligent. We do not know that. However, we do not think that this should be done through the budget process or through the legislative process.

Then, there are several cost-cutting proposals. And again, we sympathize. But, again, we question whether it is a good idea to require specific cuts in the budget. And many of these are connected with labor relations and negotiations—which means that they are not likely to be achieved during F.Y. 1990.

A 2 percent cap—we are talking about most of the labor costs of the Postal Service—this is part of the labor negotiation process and we feel it is disingenuous for the Administration to propose a 2-percent cap on the Postal Service, to recommend the use of part-time and casual employees much more greatly than they are now, which we, by the way, would also recommend, and make other proposals which are subject to negotiations and cannot show up as a saving in the 1990 budget.

The Administration also talked about the privatization commission recommendations. All we would say about that, even though we have not taken a position on many of those recommendations is that there is a growing pressure on the part of mailers to try to do something about increasing competition in the Postal Service. And we think you need to look at that very carefully.

I have other comments in my written testimony, but I will leave that to the record.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Barton follows:]

Testimony of

Richard A. Barton

Senior Vice President/Government Affairs

Direct Marketing Association

Messrs. Chairman, members of the two subcommittees, thank you for giving the Direct Marketing Association the opportunity to comment today on various aspects of the administration's budget proposal as it would affect the Postal Service. DMA is an international trade association with more than 3,000 domestic corporations as members. Our membership is involved in all aspects of direct marketing; however, the mail is still the foundation of much of our business, and our members are vitally interested in a healthy, viable Postal Service.

We have made no secret of our concern with the future of the Postal Service and the future of those companies which use third-class mail to promote and sell their products. Escalating postal rates have backed many of our members against the economic ropes, and many of them are concerned about the quality of delivery and service in general. Postal rates are rising dramatically because postal costs are rising dramatically. Unless something can be done to keep a lid on rising costs, we fear that the Postal Service will be substantially weakened. Even now, we find that we have little alternative but to seek and encourage alternate sources of delivery. Another major postal rate increase may well provide the coup de grace for many mailers.

The comments we have will be devoted solely to the original Reagan administration budget. The limited budget presented by the new Bush administration did not address itself directly to postal issues, though the freeze provisions could have some effect, largely in the area of revenue foregone.

We view the administration's proposals with somewhat mixed feelings. We believe that the administration wants to move in the same direction as we. We are both concerned about escalating costs and lack of management flexibility, particularly in the

sensitive area of personnel. We are interested in saving money by judicious contracting out and worksharing, and would like to see added elements of competition in some areas. This being said, DMA has several reservations about the administration's budget proposals. Taken as a whole, we doubt that they will do what they appear intended to do -- make the Postal Service a more efficient organization. They are also contradictory in approach. On the one hand, the document stresses the original goal of the Postal Reorganization Act to have the various classes of mail pay their own way. However, other proposals would sock regular rate mailers with costs to cover preferred rate mailings -- a direct violation of this principle. The budget would have the Postal Service pick up present "subsidies" for certain health benefit and retirement costs, yet apparently would also have the Postal Service pay for retirement and health benefit obligations incurred while a retired postal employee worked for another agency. All in all, the proposals are a hodgepodge which reflect less coherent, consistent thought about the Postal Service than we would have liked. This is a shame, because we feel that the administration can and should play a positive role in promoting a healthy Postal Service.

Following are comments on some specific aspects of the administration's postal budget proposals:

Revenue Foregone: The budget proposes that all funding for non-profit and other preferred rate mail be eliminated except free-for-the-blind and overseas voters mail. However, it suggests that the preferential rates should be kept the same and that the subsidy be picked up through productivity gains and by shifting the costs to full postal rate payers. All this really means is that regular rate mailers will pick up the tab, and this is completely unacceptable to them. We have supported revenue foregone funding through the years partly because we have many nonprofit members but largely because of

proposals such as this. The funding of socially useful special mail rates for non-profit organizations and newspapers should come from the general treasury. It is both unfair and self-defeating to shift these costs to regular rate payers (including Aunt Minnie) who are in no way responsible for generating them. Such a shift in costs would do nothing but heighten the economic pressures on mailers mentioned above and further weaken the economic viability of the Postal Service.

Reduction of Eligibility for Non-profit Mailing: To lower the revenue foregone subsidy, it is also proposed to terminate the special rates for "political advocacy mail, commercial seminar companies, and high advertising content mail." This proposal is based on a study conducted by the Postal Rate Commission in 1987 and reported to Congress. The narrowing of eligibility for non-profit rates may or may not be a good idea. However, our ability to comment is severely hampered by the lack of any specific legislative language. Also, experience shows that any legislative attempt to reduce eligibility for the non-profit rate will inevitably become highly controversial and, therefore, difficult to pass. The reluctance of Congress to take any action whatsoever in this direction is evidence of this fact. Therefore, savings from adoption of such a proposal should not be included in any FY 1990 budget figures.

Payment for the Cost of COLAs and Health Benefits Paid to Postal Retirees: There is little doubt that the Postal Service will eventually have to pick up these costs in one way or another. However, we would suggest that the amortization period be 20 or 30 years rather than the proposed 10. More important, the Postal Service should not have to pick up these costs for time previously spent in other Federal agencies (and therefore credited toward retirement) when those final years of service are with the Postal Service.

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Establishment of New Subclasses for Government Mail: This is legislative ratemaking, one of the main targets of the Postal Reform Act of 1970. If the administration wants to return to the pre-1970 days when Congress set the rates, it should do so for all mail. Short of that (and we are certainly not advocating that step), it should stay out of the ratemaking business. The assumption that all government mail has lower attributable costs has not been tested in the crucible of the ratemaking process. Also, if Congress and the administration are going to begin creating subclasses outside the established ratemaking process, we have no idea where it will end. Finally, there has been virtually no thought given to the possible impact on the rest of the mail stream and the ratepayers themselves. While DMA has some reservations about the current postal ratemaking process, we believe that some process relatively free from day-to-day political pressures is important. This proposal does not meet that basic criterion.

Cost Saving Proposals: In addition to the above proposals, the budget document indicates that the administration will offer a legislative package mandating reductions in the Postal Service's operating and capital costs to "offset fully the cost of taxpayer subsidies shifted to the Postal Service."

Again, we are hampered by the absence of a specific legislative proposal. However, the administration is apparently going to propose two distinct areas of cost reduction proposals. One will mandate mail processing and management improvements and freeze capital obligations at the 1987 level. The mail processing and management improvements include contracting out sorting operations for new mail volume, eliminating all package handling and express mail operations and handing them over to private companies, diverting some mail to surface transportation, and managing employee work hours

(whatever that means). Some of these actions may ultimately prove desirable. However, with the severe dislocations caused by the last attempt by the administration and Congress to micromanage the Postal Service, we are not heartened by the viability of these new OMB proposals. We take backseat to no one in pressing for reductions in postal costs, but we have great doubts as to whether such specificity should be written into legislation.

The second general area of cuts directly involve the very sensitive area of labor-management relations. The budget reflects a limitation of the USPS 1990 pay raise to two percent and the replacement of full-time employees (through attrition) by "low cost" casual employees. Both would require negotiations with unions, and the next contract negotiations are not due to begin until mid-1990. In addition, the proposal to contract out sortation would also involve labor issues which would probably have to be negotiated. DMA members share the administration concerns about high postal labor costs and agree that the greater management flexibility which would come from the ability to use more casual and part-time employees would be highly desirable and cost effective. We would encourage management to include similar proposals in their negotiation package. However, it is extremely unlikely that any savings can be made in this area in the FY 1990 budget.

Other Budget Proposals: The accompanying explanation of the budget mentions that the budget also reflects savings which would accrue from 1) implementation of the Privitization Commission's recommendations, 2) regional test projects to expand private delivery of addressed third-class mail, and 3) the establishment of a Presidential Commission on the Future of the Postal Service. No specific budget savings were

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allocated to these proposals, and it is hard to see how they would have a significant budgetary impact in the near future.

The most significant recommendation of the Privitization Commission as far as third-class mailers are concerned was the proposal that the Private Express Statutes for third-class mail be repealed. We sympathize with the factors which led to this recommendation. In many ways, we are a captive of the monopoly. With spiraling costs, the drive to find alternatives is logical and inexorable. DMA is already involved in developing alternative delivery sources within the general context of the current statutes. We favor the second proposal to test selectively private delivery of addressed third-class mail. We have already made some approaches to the Postal Service in this matter. With regard to the third proposal, a presidential commission may well be a good idea. Under similar pressures, Congress established a similar commission which issued its report in 1976. It may well be time to have another comprehensive look at postal policy issues. Our main caveat, however, is that it is essential that it be a well balanced commission representing a broad spectrum of the postal constituency from postal labor to commercial mailers, from the average citizen who uses the mail for greeting cards and personal notes to top government, postal, and business leaders. Establishing a commission, biased from the start, which has no possibility of developing a broad consensus, will be a worse than useless exercise.

Conclusion: Many improvements in many areas need to be made at the Postal Service. It would not go too far to say that many major mailers are on the verge of revolt because of escalating postal rates. We believe that the Congress, the administration, and, of course, the Postal Service itself must work together to bring necessary improvements in management of costs and service. Unfortunately, many of the budget proposals fall far short of this goal.

Mr. McCLOSKEY. Thank you, Mr. Barton, for a fine and eloquent statement.

Mr. Fisher.

STATEMENT OF MICHAEL FISHER, CHAIRMAN OF THE BOARD, PARCEL SHIPPERS ASSOCIATION

Mr. FISHER. Thank you very much, Mr. Chairman.

I appreciate very much, on behalf of the Parcel Shippers Association, the opportunity to submit these comments to you today.

My name is Michael B. Fisher. I am chairman of the board of the Parcel Shippers Association, a group of approximately 200 businesses which utilize the United States Postal Service and other carriers to ship parcels in interstate commerce.

Because our members are also heavily reliant on the Postal Service as the principal means for soliciting sales, and these customers, in turn, use the Postal Service to place orders, we have a far heavier reliance on the Postal Service than the specific purpose of our organization would suggest.

In addition, I am a senior officer of Fingerhut Corporation, a very large customer of the Postal Service, which has sold to approximately one out of every six households in the United States by mail. We have often said that, without a viable Postal Service, our company would cease to exist and be able to deliver its services to all of those households.

So we are vitally interested in the health of the Postal Service.

I will attempt to summarize briefly the essential points in my remarks and will otherwise make myself available for questions.

Before talking to the specifics, we do wish to point out that these would not be the same issue if the Postal Service were off budget.

Chairman Leland has reintroduced in this Congress legislation that would accomplish the objective of removing the Postal Service from the President's budget and the Congressional budget.

We wholeheartedly endorse the objective of H.R. 982, and note with satisfaction that Mr. Leland's bill has the bipartisan support of most members of the full committee.

I would be pleased to speak more to that should you have any questions.

We do have one caveat about H.R. 982. Unlike Chairman Ford's bill of last year, it does not change the existing debt cap, and we think it probably makes sense to do so, pending a satisfactory investigation and hearings by Congress to this end.

Our most serious concern with President Bush's budget is that it places Postal Service funding in the same category as other government programs, which would be subject to the President's freeze.

The budget also proposes a number of disturbing legislative initiatives. The Reagan budget states that legislation will be proposed to make the Postal Service liable for future payments to all Postal Service and Post Office Department annuitants and survivors for CSRS COLA increases each year, beginning with January 1990.

Like others who have spoken to this issue, we believe that the Postal Service should bear its fair and appropriate costs and not costs which are not thus fair. In the U.S.P.S., responsibility for retiree COLAs should be applied only prospectively.

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The Reagan budget states legislation will be proposed to establish a separate sub-class for government mail. There is the contention that government mail has lower attributable cost than other mail in comparable classes. This legislation would provide that reduction in payments by the government be made up for by in creasing the prices paid by non-government mailers, such as our members, following the next rate case.

This proposal totally misunderstands the basis upon which classifications are established. Classes and sub-classes are not established for particular mailers, they are established for categories of mail. And the government is simply a mailer like other mailers, although it is larger than most.

And it may be that the government's first-, second-, third- and fourth-class mail is less costly to handle than someone else's, but it is clearly not the case that it is less costly to handle than the mail of other large mailers such as Fingerhut or the Reader's Digest.

And there is no valid basis for setting up a separate class of mail for each individual mailer, which can establish that because it prepares the mail better it deserves a separate sub-class. That would truly be the end of a universal postal service with uniform prices for all Americans.

By the way, we are suspicious of data that suggests the government's mail is less expensive.

With respect to the other Administration proposals, we wish we could believe that life were so simple that Congress cou'd simply pass a law which would cause the Postal Service to reduce its costs, cut its capital improvements, take on billions and billions of dollars of added responsibility for retirees' COLAs and health plan payments, and at the same time, not result in any service cutbacks or increased postal rates.

We cannot believe that anyone in the Office of Management and Budget is that naive.

As we have indicated, we are agreeable to changes in the Postal Reorganization Act, which would require the service, over time, to assume a fair share of annuity costs. However, if mail users are truly to pay all the costs of operating the Postal Service in the future, plus the costs of retired personnel that had, heretofore, been shouldered by the government, the service should also be able to negotiate all conditions with labor.

We do not believe that, under such circumstances, postal management's hands should be tied by legislation which grants to the postal labor workforce rights and benefits which it would be unable to negotiate at the bargaining table.

In closing, we urge Congress—or penultimate to closing, excuse me, we urge Congress to consider granting the Postal Service some rate-making flexibility to respond quickly to changing market conditions. The current process is cumbersome and leaves the Postal Service in a slow and awkward attempt to compete even in those classes of mail where it does have competition.

Now, in closing, and I apologize for the mistake, let me say that our association and its members have great confidence in the new Postmaster General. We are extremely pleased with his qualities and the talent he has for the job, which demands the best.

We hope he does not become captured by the bureaucracy. The Postal Service is in very difficult times and cannot afford the kind of political meddling we have seen recently. Costs are increasing at a faster rate than volume; productivity improvement is, unfortunately, non-existent. It will take all the ingenuity, skills and dedication of management and labor to return the Postal Service to the efficient national system that it can be.

We believe that job can be done and we also believe the Postal Service deserves the chance to do this.

I thank you for the opportunity of submitting these remarks, and I am available for any questions you may have.

[The prepared statement of Mr. Fisher follows:]

STATEMENT OF MICHAEL B. FISHER
CHAIRMAN OF THE BOARD
PARCEL SHIPPERS ASSOCIATION
BEFORE
THE SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES AND
THE SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION
MARCH 9, 1989

My name is Michael B. Fisher; I am Chairman of the Board of the Parcel Shippers Association, a group of approximately 200 businesses which utilize the United States Postal Service and other carriers to ship parcels in interstate commerce. Our members are also heavily reliant upon the Postal Service as the principal means for soliciting sales from their customers; and these customers in turn use the Postal Service to place orders for merchandise, and to pay their bills for that merchandise.

These hearings focus on proposals in the President's Fiscal Year 1990 Budget affecting Postal Service operations. We were extremely disturbed by President Reagan's 1990 budget for the Postal Service. President Bush's Postal Budget for 1990 is vague; as with so many other programs, Postal Service matters are in the so-called "black box." We do not know to what extent there will be a departure by President Bush from the proposals in the Reagan Budget. We have extreme concern with a number of those proposals, and we will address them.

Before discussing specific budget proposals, however, we would make the general observation that we would not need to be so concerned with these budgetary proposals if the Postal Service were "off budget." Chairman Leland has reintroduced in this Congress legislation that would accomplish the objective of

removing the Postal Service from the President's Budget and the Congressional Budget. We wholeheartedly endorse the objective of H.R. 982, and note with satisfaction that Mr. Leland's bill has the bipartisan support of most members of the full Committee.

For most of its life since reorganization the United States Postal Service has been off budget. It was moved back on budget in 1985 through administrative manipulation. It does not belong "on budget" since its whole mode of operation is like that of a business rather than that of a government agency. The Postal Service is required by statute to operate its financial budget like a business. It does not merely take account of receipts and disbursements. It accrues expenses; makes long-term capital commitments, and reflects those in its annual accounts. The federal budget process cares little for anything other than current receipts and expenditures. The Postal Service's expenditure of dollars is deemed to contribute to the deficit, notwithstanding the fact that the Postal Service raises those dollars that it spends from mail users. Unlike much of the rest of government the Postal Service is spending money that it has, not that it is borrowing from the future.

The Postal Service estimates that removal of the Postal Service from the budget will actually have a positive impact on the federal deficit of some seven and a half billion dollars over the next five fiscal years. And it should be emphasized that taking the Postal Service off budget in no way dilutes Congressional oversight authority or responsibility over the

Postal Service. We would oppose any dilution of that responsibility.

We think Chairman Leland's remarks when introducing H.R. 982 clearly answered the question why the Postal Service should go off budget while other agencies remain on. As Chairman Leland pointed out, inclusion of the Postal Service in the budget distorts rather than presents an accurate picture of overall federal government operations due to the fact that the Postal Service operates on an accrual accounting basis for its capital improvement funds whereas the federal budget is designed on a cash accounting basis. So, rather than being deemed long-term investments by the Postal Service, the federal budget deems these capital investments as operating losses in the current year. Other government entities which might have a claim for going off budget are largely composed of those which do not have large capital investment activities as does the Postal Service.

We do have one caveat about H.R. 982. Unlike Chairman Ford's bill of last year, it does not change the existing ten billion dollar cap on the aggregate amount of outstanding Postal Service debt. We think that an increase in that ceiling is essential for the Postal Service. We are not prepared to say now how much that increase should be; that should be the subject of hearings by the Committee, and the Postal Service should make their case and satisfy the Committee about just how much more borrowing authority is required. The Postal Service projects that at the conclusion of fiscal year 1990 it will have 7.945

billion of debt outstanding and that by 1992 it will exceed the 10 billion dollar cap. It does seem clear to us that the enlargement of the 10 billion dollar cap, enacted at a time when the Postal Service budget was about one quarter of its present size, is essential.

Our most serious concern with President Bush's budget is that it places Postal Service funding in the same category as other government programs which would be subject to President Bush's freeze. According to Senator Domenici, freezing Postal Service funding at the previous year's spending level would force the Postal Service to absorb a 2 billion dollar cut in current projections. Senator Domenici has stated our position succinctly: "It is important to highlight the implications of such a cut now so that we do not stumble into another set of unintended and ill-conceived postal budget cuts as we did in 1987."

The Reagan budget proposes a number of disturbing legislative initiatives. Whether they will be advanced by the Bush administration remains to be seen.

The Reagan budget states that legislation will be proposed to make the Postal Service liable for future payments to all Postal Service and Post Office Department annuitants and survivors for CSRS COLA increases each year beginning with the January 1990 COLA adjustment paid during fiscal year 1990. Legislation is also proposed to make the Postal Service liable for the government portion of the Federal Employees Health

Benefit premiums of all Postal Service and Post Office Department annuitants and survivors.

We endorse the Postal Service's position on these issues. Any USPS responsibility for retiree COLAS should be applied only prospectively to new retirees and should then be reasonably apportioned between service for the Post Office and other government service, and should further be amortized over the retiree's life expectancy. As to the proposal for health benefit premiums for Postal Service and Post Office Department annuitants and survivors, we support the Post Office's position advocating a reasonable method of allocating the costs between the Postal Service and the Post Office Department. We believe the OMB proposal is most unfair to mail users who would have to pay for it; beginning in 1991 the differences in the two approaches could well exceed a billion dollars a year.

The Reagan budget states that legislation will be proposed to establish separate subclasses for government mail. There is the contention that government mail has lower attributable costs than other mail in comparable classes. This legislation would provide that the reduction in payments by the government would be made up for by increasing the prices paid by nongovernment mailers following the next rate case. This proposal totally misunderstands the basis upon which classifications are established. Classes and subclasses are not established for particular mailers; they are established for categories of mail. The government is simply a mailer like any other mailer, although considerably larger than most.

It may be that the government's first, second, third and fourth class mail is less costly to handle than someone else's mail in those classes; it is clearly not the case that it is less costly than the mail of some other very large mailers, such as Fingerhut and Reader's Digest. There is no valid basis for setting up a separate class of mail for each individual mailer which can establish that, because of its own efficiencies in mail preparation, it deserves its own separate subclass. That would truly be the end of a universal Postal Service with uniform prices for all Americans. We might add that we are most suspicious of data that suggests that the government's mail is less expensive to handle than that of any other large mailer. There is nothing in the manner of the handling of first class government mail to suggest that it is less costly than the first class mail of, for example, the telephone company.

The Reagan budget also threatens legislation that would require further reductions in USPS capital and operating budgets in order to offset increased costs and temporary losses which result from the administration's own proposals. The panaceas suggested are further contracting out of mail processing and delivery functions; reduction in the salary increases mandated under the collective bargaining agreement; and a ceiling on capital commitments. The message goes on to state that if all of these draconian measures do not yield the savings that are necessary to meet the budget projections for the Postal Service, then there would be further legislation that requires the Postal

Service to initiate additional cost reduction actions to make up for the shortfall. The budget then states that all of these cost reductions and curtailments of capital outlays have got to be accomplished without any service cutbacks or increased postal rates. We wish we could believe that life was that simple; that the Congress could pass a law which would cause the Postal Service to reduce its costs, cut capital improvements, take on billions of dollars of added responsibilities for retirees' COLAS and health plan payments, and at the same time not result in any service cutbacks or increased postal rates. We cannot believe that anyone in the Office of Management and Budget is that naive.

We have read the Committee's Proposed Views and Recommendations on the Administration's FY 1990 Budget Proposals filed pursuant to Section 301(d) of the 1974 Budget Act. We are gratified with the Committee's uniform rejection of most of the Reagan-Bush proposals.

As we have indicated we are agreeable to changes in the Postal Reorganization Act which would require the Postal Service, over time, to assume its fair share of the costs of COLAS paid to annuitants for the time that they worked for the Postal Service; and we make the same undertaking for the payment of the annuitant's health care costs. However, if the mail users are truly to pay all of the costs of operating the Postal Service in the future, plus the costs of retired postal personnel that had heretofore been shouldered by the federal government, then the Postal Service should be able to negotiate all conditions with

labor. We do not believe that under such circumstances postal management's hands should be tied by legislation which grants to the postal labor workforce rights and benefits which it would be unable to negotiate at the bargaining table. It is we, the mail users, which, after all, will have to pay for one hundred percent of any benefits conferred by legislation rather than by the bargaining process.

We continue to believe that the monopoly is essential in order to preserve the universal postal system as we know it today. At the same time we believe that the monopoly cannot and should not be used as a shield to protect inefficient management or an inefficient and unproductive workforce. Unless the Postal Service can operate efficiently, then, as Postmaster General Frank himself has said, the Postal Service does not deserve the protection of the monopoly laws.

We would point out that parcel shippers do not have to give their business to the Postal Service; there is no postal monopoly on parcel post. Quite the contrary; because of the inflexibilities of the current rate making system, and misguided policies of past Postal Rate Commission decisions, parcel post rates have been elevated to an unreasonably high level. The net result of this has been to drive all the desirable parcel post business out of the postal system into the hands of United Parcel Service, a company that truly does enjoy a monopoly. In fact, for surface parcels weighing in excess of one pound, United Parcel Service is probably the largest unregulated monopoly in the free world.

We have just recently had an opportunity to be reminded of what it is like to deal with a monopoly. This last January we were suddenly notified by United Parcel Service that we would within thirty days have our United Parcel rates increased as much as ten percent. There is no appeal from this decision; there is no government agency we are permitted to go to to complain about this decision. They are free to do what they wish. No one will examine whether United Parcel Service needs these large increases; no one will inquire into what kind of profits United Parcel Service is making; this is another of the benefits of deregulation. Parcel post rates fixed by the Postal Rate Commission will still remain higher than these increased rates of United Parcel Service in almost all of the rate cells where the traffic is. UPS need fear nothing from a Postal Service which has absolutely no rate flexibility to respond to the market; nor need they fear any other competitor for the ground parcel service, since there are none. Parcel post service remains the only possible hope we parcel shippers have for any restraining influence on the UPS Goliath.

While we are on that point, we urge the Congress to consider granting to the Postal Service some rate making flexibility to respond quickly to changing market conditions in classes of service where there is no monopoly protection to the Post Office and there is competition. There has been an express mail proceeding ongoing at the Postal Rate Commission for almost one year, with the end not in sight. This proceeding is merely

an attempt to get the Commission to agree to a shorter proceeding for the Postal Service to respond to changes in the express mail market. Obviously, if your competitor lowers their prices or offers a different kind of service and it takes well over a year to get approval to respond to that from the Postal Rate Commission, the business opportunities will be long gone and you will simply be unable to compete.

Another concrete example of the inflexibility of the current situation is to be seen in a proposal that we have sought to have implemented since 1985. It would permit lower rates for parcels that are shipped by the mailer directly to the bulk mail center out of which they would be delivered, a so-called destination bulk mail center (DBMC) rate. This is an idea that makes sense to everyone who has looked at it; the users, the Postal Service, the Postal Rate Commission; everyone, that is, except United Parcel Service. And yet, we are told that because of the rigidities of the PRC process the Postal Service is not even going to propose this change again until the next rate proceeding, which means that at the earliest this change could not be implemented into law until sometime in 1991. This strikes us as ridiculous for a clearly meritorious idea to have to wait through such a long process to see its implementation.

In closing let me say that our Association and its members have great confidence in the new Postmaster General. We are extremely pleased with his qualities and the talent he has for a job which demands the best. We hope he does not become captured

by the bureaucracy. The Postal Service is in very difficult times and cannot afford the kind of political meddling we have seen recently. Costs are increasing at a faster rate than volume; productivity improvement is nonexistent; it will take all of the ingenuity, skills, and dedication of management and labor to return the Postal Service to the efficient national system that it can be. We believe the job can be done, and we also believe that the Postal Service deserves the chance to do this without the artificial constraints of being "on budget," and the punishing interference of the Office of Management and Budget into the operations and capital development plans of the Postal Service.

Mr. McCLOSKEY. Thank you very much, Mr. Fisher. I hope you have a good and safe flight back.

I noticed in your prepared statement, Dick, you say, "We are interested in saving money by judicious contracting out and worksharing and would like to see added elements of competition in some areas."

Do you have any specific suggestions on that?

Mr. BARTON. Well, to do it in order, I guess, I think there are probably a lot of places where costs can be cut. I am not sure I would do it in contracting out sortation. That is a very serious personnel problem. But in other areas, I do not have specifics, but I think there could well be.

The worksharing has been done by the Postal Service in cooperation with mailers itself. They have come up with proposals running, I believe, between $500 million and $800 million of possible worksharing proposals, some of which might affect postal labor and others which do not. We should move ahead and try to adopt these as quickly as we can.

In terms of competition, it is a very ticklish issue within the mailing industry. We want a strong Postal Service, but we are faced with such substantially increased costs, and we are already talking about the possibility of another 30 percent increase in the cost of third-class mail, that we are actively now looking for alternative forms of delivery within the current private express statutes.

I think we are going to develop them. This is something which we think, as Mr. Baer said this morning, may be a positive thing for the Postal Service to provide some competition.

And if the rates continue to go up, I think we will be forced to look for other ways to challenge the private express statutes. At this point now, we are looking for alternate forms of delivery, and doing it within the private express statutes.

Mr. McCLOSKEY. Another interesting comment that you have given us today, Dick, is, "It would not go too far to say that many major mailers are on the verge of revolt because of escalating postal rates."

Mr. BARTON. Yes, they are.

Mr. McCLOSKEY. Would you talk about that revolt?

Mr. BARTON. Well, the revolt is what I am talking about in terms of alternate delivery. I am being pushed very hard within my association to find other ways to deliver our product. We are doing it through saturation mail, which is not through the private express statutes, and other methods. For example, catalogs are not covered by the statutes and can be delivered separately.

They are looking very substantially for other ways to deliver their product and get their message out, rather than go through the Postal Service.

It is simply a matter of economics. It is not a matter or being against the Postal Service or against postal workers. It is purely economics.

Mr. McCLOSKEY. Do you feel people are listening to you at the Postal Service when you go over there and talk about these cost problems?

Mr. BARTON. Sometimes yes, sometimes no. To be frank about it, we have gotten a lot of good feedback from the Postmaster General. We have had a meeting, which everybody at this table participated in, I think, with all of the top management of the Postal Service around two months ago, in which we discussed with them for an entire day how to cut costs.

I was very encouraged and have been in the past by the statement that President Ogle made earlier, which was seconded by President Swisher and Vice President Palladino, I think it is, saying that their real concern, rather than wages, was in service. So I think this is coming into fruition now, I hope.

Mr. MCCLOSKEY. Thank you, Dick.

I have a question for Mr. Del Polito and anyone who wants to come in after that. Many have criticized the postal rate-making process for being too inflexible, cumbersome and expensive.

Do you agree? Do you have any recommendations for changes in the rate-making process?

Mr. DEL POLITO. Well, the Postmaster General has been most vocal in terms of believing that the postal rate-making process may be flawed. Certainly, there are some concerns that mailers have regarding the postal setting process, especially as the costs of participating in these proceedings continue to go up and up.

Whether or not it really is flawed, whether or not it is the cause for some of the difficulties that management is experiencing at the present time, I think is something that requires a much more in-depth look. Because I think, in many instances, management is grasping at straws to explain many of the shortcomings that are causing some of the difficulties that are concerning mailers, in terms of the overall welfare of the postal system.

And I think in some respects management has been using the Postal Rate Commission as a scapegoat.

Mr. MCCLOSKEY. Mr. Barton.

Mr. BARTON. I am not quite sure how to proceed. Gene's comments were very good. I think you know the history of the Postal Reorganization Act. It was a strange hybrid that we created when we put together the Postal Reorganization Act.

The Commission does not have full power to regulate the rates of the Postal Service. The Postal Service does not have full power to set its own rates. I guess I would have to say simply, we do not have a recommendation at this point. We are willing to work with the Postal Service, with the Commission, and with Congress to find a more rational way to set rates.

Right now, at least as far as third-class mailers are concerned, we think we may have the worst of all possible worlds in the postal rate-making process. I cannot get more specific than that. It takes a long time. Your hair would curl if we started talking about the amount of money that we spend in a rate-making process that we are very frustrated with.

Part of it is the Postal Rate Commission's problem, part of it is the Postal Service's problem, which does not provide us, in a rate case, with the kind of data that we need to work on a rate case. We would like to work with Congress, the Postal Service, and the Rate Commission—I think the Rate Commission feels this way, too—in getting a more rational process. But I do not know what it is right

now. Joe Fisher does. Joe was formerly with the Rate Commission; he can tell you what to do.

Mr. DEL POLITO. There are just a few things that I would like to build on in what Dick has said. In the past, it may have been true to characterize a lot of the concerns that third-class mailers might have brought to the postal rate arena as simply a matter of take it out of his pocket, don't take it out of mine.

With the size of the amount of mail that we bring to the Postal Service, I think we all recognize that the burden we bear is that which is created by what happens with the Postal Service's management of its own business. If it is wasteful, if it is not efficient, we suffer as do all other mail users.

So I think some of the concerns that we have about rate making are borne of the concerns that we have about seeing postal costs continue to rise with seemingly no end in sight.

One problem that has plagued us, which I am sure Chairman Steiger will talk to you about when she is here before you next week, is the matter of how difficult it is to get the Postal Service to provide the kind of data which is needed in a timely fashion to allow the postal rate-making process to occur without unnecessary interference or encumberances within the system.

All too often, what we found is that as we brought to the commission arguments regarding the need for specific data to handle more appropriately certain costing functions or pricing functions, what we find is that when we ask for the data from the Postal Service, they are unwilling to provide it.

And then, because of the press of time and the constraints that the commission feels, they relent to the fact that the data are not there, and so the rate-making process is flawed by that lack of vital information.

Mr. MCCLOSKEY. Thank you, Mr. Del Polito.

Mr. Fisher, do you have any comment on rate making or any of the other subjects?

Mr. FISHER. Yes, Mr. Chairman.

With respect to fourth-class mail, and parcels in particular, it is not a monopoly class of mail. In fact, fourth-class parcels must compete with what we believe is the world's largest unregulated monopoly, UPS, which has no constraints on its pricing, as was recently brought home to us when they arbitrarily, suddenly and without warning announced a dramatic price increase that simply put it to parcel shippers.

The Postal Service has had innovative proposals to compete with this unregulated monopoly, such as the destination bulk-mail center proceeding initiated before the Postal Rate Commission a few years ago, which sort of went on a tortuous, slow and not terribly productive path. We think that is the fault of the rate-making process.

We also think, in line with both Mr. Del Polito and Mr. Barton's remarks, that, unfortunately, and perhaps unintentionally, the Postal Service shot itself in the foot. And, after proposing this rather innovative rate approach, did not provide the necessary data to the Rate Commission to back it up.

And while, perhaps, some criticism is due the service, we do also think some criticism is due the rate-making process itself.

Mr. McCLOSKEY. Thank you very much, Mr. Fisher.

I think I have all of the questions in that I care to ask right now.

I want to thank you for your excellent testimony. As a relatively new member of Congress, I just want to say that I am very heartened by how much agreement there is between all of the constituents and representative groups and the Postal Service itself. It is amazing how much agreement there is. I, for one, find that very heartening.

This hearing is adjourned. I thank you very much.

[Whereupon, at 2:57 p.m., the subcommittees were adjourned, subject to the call of the Chair.]

[The following statements were received for the record:]

Statement of Association of American Publishers to Subcommittee on Postal Operations and Services and the Subcommittee on Postal Personnel and Modernization of the United States Congress House of Representatives

The Association of American Publishers (AAP) is the principal trade organization of the book publishing industry. Its members use virtually all classes of mail but are especially interested in Special Rate Fourth Class and the Library Rate which is a subclass of Fourth Class Mail.

The Reagan Administration Budget proposes the elimination of more than 1.6 billion from the Postal Service Budget for FY 1990 which includes revenue foregone funding except for free mail for the blind and overseas voter mail. The Reagan Budget also includes eliminating all cost-of-living adjustments and health benefits paid to postal retirees. This budget would "Require reforms in current postal operations to achieve cost reductions sufficient to accommodate these changes, without reducing services or requiring a rate increase."

President Bush's budget would freeze revenue foregone at the FY 1989 level of 436.4 million. The Postal Service had requested $459.8 million for FY 1990.

In hearings before the Subcommittee on Treasury, Postal Service and General Government of the House Appropriations Committee held on February 2 concerning the FY 1990 Congressional appropriations of Postal Service, the Postmaster General in response to a question from the Committee said that if revenue foregone funding were to be

eliminated it could have the effect of as much as 1/2 cent per piece across the board increase in future postal rates.

The administration budget proposal would have its most immediate effects upon not-for-profit users and recipients of mail -- organizations eligible to ship or receive mail at the nonprofit and preferred rates.

The Administration's budget proposals for the Postal Service are deficient in two respects. The first, the Reagan proposal to eliminate the "revenue foregone" appropriation does violence to a long standing -- and still valid-- national policy encouraging the dissemination of knowledge through the mails. Secondly, the Bush proposal by lowering the Postal Service's request does the same violence to a lesser degree.

The creation of Federal funding of the nonprofit mail classes is a matter of fundamental, longstanding national policy. The Library Rate was first created in 1928 in connection with the general revision of postal rates and classifications after the First World War. The debates at that time on the desirability of holding down rates on mail classes for the support and dissemination of knowledge are still pertinent today.

> "The dissemination of news and information, the education of the people, their uplift, improvement, and advancement are not properly matters of financial costs, but should be pursued as a governmental duty without regard or reference to the cost in dollars and cents. The results cannot

be measured by the rule of a dollar. (69 Cong. Rec. 5,784 (1928)).

It is important to note that this policy was enunciated during the administration of Calvin Coolidge, who was hardly a reckless spender.

This is not surprising as national support of mail classes used for the dissemination of knowledge helps to promote the values underlying the First Amendment. An informed citizenry, an uninhibited, robust and wide-open debate and discussion are the cardinal virtues contemplated by our system of freedom of expression. One of the governmental facilities most important to this system is the Postal Service. As Justice Holmes once stated, "[t]he United States may give up the Post Office when it sees fit; but while it carries it on the use of the mails is almost as much a part of free speech as the right to use our tongues... ." (United States ex. rel. Milwaukee Social Democratic Publishing Company. v. Burleson, 255 U.S. 407, 437 (1921)). It was -- and is -- sound policy to promote the dissemination of knowledge through special rates for mail matter like books being sent under the Library Rate.

Indeed it would not be an exaggeration to state that the failure to provide these rates would amount to a tax on knowledge. If, as Justice Cardozo stated, the freedom of speech is "the matrix, the indispensable condition, of nearly every other form of freedom." (Palko v. Connecticut, 302

U.S. 319, 327 (1937)), the government ought to assist the means by which freedom of speech can flourish. Treating books and other sources of information like bricks -- to borrow Chairman William Ford's apt phrase -- would reduce freedom of speech to the level of mere commerce. It would make as much sense to require the instruments of our national defense to pay as they go -- for the crew of a Stealth bomber to bear the cost of flying the same.

These considerations are not limited only to the Library Rate Subcategory. The same policies -- that certain goals must be pursued by a democracy "without reference to the cost" -- led Congress to create and support the nonprofit second and nonprofit third subclasses. Indeed, many of the institutions who are recipients of books and other educational materials shipped at the Library Rate are also users of nonprofit second and nonprofit Third-Class mail. In each case, an important purpose of the subclass is to promote and support educational institutions and others engaged in the dissemination of information and learning.

Congress must continue a responsible level of appropriations to defray the cost of these mail classes.

The members of AAP realize the many beneficiaries of government funding face a period of budgetary constraints. However, for reasons of fundamental national policy, mail matter used to support and for the dissemination of knowledge stands on a different footing. The full revenue foregone request of the Postal Service must be granted.

Statement of the National Newspaper Association
March 13, 1989

The National Newspaper Association is a national trade association representing the interests of weekly and daily community newspaper publishers throughout the country. Founded in 1885, and with more than 5,000 member newspapers, NNA is the oldest and largest national trade association in the newspaper industry. Most of NNA's members deliver their newspapers through the mail at second-class rates, using the in-county rate for paid circulation newspapers and regular second-class rates for requester newspapers. Many use the Postal Service to deliver advertising products via third class rates.

NNA is pleased to submit for the record of Congress' annual postal oversight proceedings, this statement on President Bush's Budget submission. NNA also appreciates the invitation it received to testify at the proceedings, and regrets that long-standing obligations prevented an NNA representative from appearing before the Subcommittees in person.

NNA strongly supports continued oversight of the Postal Service by Congress, and urges the members of these Subcommittees to maintain an active interest in postal affairs.

There are two issues we address[1] in this statement: the Bush administration's continuation of both the Reagan administration's proposal for the revenue forgone

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[1]An issue perhaps not yet ripe for Congressional action, but one which may soon be, is whether the formal nature of the Postal Rate Commission's classification procedures, and the statutory restrictions which rigidly limit the Commission to those procedures, is the most appropriate statutory framework for developing changes in the classification schedule.

Although we have no formal position on this matter, NNA's experience in classification matters at the PRC suggests that the Commission's ability to efficiently develop intelligent rules and regulations about complicated postal matters through discussion and dialogue among the mailing community may be severely limited by the adjudicative nature of the Commission's statutorily-mandated classification procedures.

NNA stresses that its concern is with the framework in which the Rate Commission must function in classification matters, and not with the fashion in which the Commission conducts its hearings.

appropriation, and the Reagan administration's refusal to rectify the mistake it made several years ago when it brought the Postal Service back on-budget.

I. RETURNING THE POSTAL SERVICE TO ITS FORMER STATUS OFF-BUDGET

Because our members rely so heavily on the Postal Service, we are very interested in the recent proposals to return the Postal Service to its previous off-budget status, and we strongly endorse Chairman Leland's bill. NNA is also very concerned that the proposal did not become law in the last Congress, and urges Congress to pass the proposal in this session.

Keeping the Postal Service on-budget distorts the federal deficit picture in at least two ways. First, the Postal Service's on-budget status means that all the operating revenues and expenses of the Postal Service are figured into the federal deficit. As more fully explained below, this either overstates or understates the federal deficit picture, depending upon the financial situation of the Postal Service.

Second, because of the fashion in which the federal government keeps its books, every dollar the Postal Service commits to future capital projects results in a dollar being added to the federal deficit in the current year. This occurs despite the fact that the dollar will come from postal revenues rather than tax revenues.

A. Operating Expenses.

The Postal Service, for practical purposes, pays for itself "out of the stampbox," as Postmaster General Frank has said. As the distinguished members of these Subcommittees know, the Postal Service is statutorily required to break even, and does so on an approximate three-year financial cycle. During those three years, there are both periods of surplus and of deficit. In neither case is the federal budget truly affected, since tax dollars do not contribute to the postal surplus and are not called for to rectify any postal deficit. Consequently, during years that the Postal Service runs a surplus, the real federal deficit is

understated on paper. Conversely, during years that the Postal Service runs a postal deficit, the real federal deficit is overstated on paper.

The relationship of the federal government and the Postal Service is similar to that of a corporation and a wholly-owned subsidiary. A parent and a subsidiary are two entirely distinct entities with separate operating budgets, balance sheets, and accounting systems. The operating revenues and expenses of the subsidiary do not show up in the parent's profit and loss statement. Yet the operating revenues and expenses of the Postal Service, a wholly-owned subsidiary of the United States government, shows up on the government's profit and loss statement. This makes no sense.

Moreover, keeping the Postal Service on-budget not only distorts the public's idea of the magnitude of the real federal deficit, but also puts the Postal Service, and its users, at the mercy of political maneuvering unsuited to an organization set up to break even and serve the public. Removing the Postal Service from the federal budget will allow it to run as the 1970 Postal Service Reorganization Act intended it to be run: on a business-like basis separated from the political arena.

B. Capital Accounts.

The Postal Service's budget, like that of most businesses, is based upon an accrual accounting method. The federal government, however, operates on a cash-basis accounting method. In order to reconcile the two, when the Postal Service is figured into the federal system, the Postal Service's capital expenditures are treated as if they were current expenses in the particular year in which they occur, and had no useful life. By treating these expenditures in this manner, instead of depreciating them over the life of the capital improvement, all Postal Service capital spending adds significantly to the Federal deficit. This gives Congress a significant incentive to discourage (or outright prohibit) the Postal

Service from building new facilities and making other capital expenditures to provide better service for all mailers.

Postmaster General Frank has pointed out in testimony before the Subcommittee on Treasury, Postal Service and General Government of the House Appropriations Committee, that the Postal Service is faced with tremendous growth in the number of mail pieces it must move through the system. This growth in mail volume places a severe strain on older facilities, creating a great need for new buildings and automated equipment to handle the volume. The Postal Service needs to spend its capital funds. Congress should not prohibit it from doing so.

In summary, the Postal Service should not be subject to manipulation in order to produce illusory deficit reductions. In reality, only the efficiency of the Postal Service is reduced by such maneuvers. Not only business mailers, but all Americans who use the mail suffer needlessly.

II. THE REVENUE FORGONE APPROPRIATION.

A. Need for Full Funding.

NNA strongly supports full funding for the revenue forgone appropriation for fiscal year 1990.

Roughly five percent of the revenue forgone appropriation supports the in-county second-class postal rate, and that rate is vital to the continued vitality of many local newspapers. Since the Postal Reorganization Act was passed in 1970, in-county postage has skyrocketed about 8 times faster than inflation. Since 1970, in-county postage has increased by more than 1600 percent, while inflation has increased by only 220 percent. This sharp increase has been a significant contribution to the failure of a number of small newspapers. The threat of continued increases threatens others. In all cases, it makes it extremely

difficult for publishers who rely on these rates to do any intelligent long-term planning.

In 1986, for example, mailers suffered three rate hikes in one year with in-county rates rising by up to 100 percent and out-of-county rates by up 180 percent. Since postage is one of the major costs of publishing a community newspaper, such rate instability makes it very difficult for publishers to consistently provide, at a reasonable cost, the local news and other information that their communities need.

The benefits local newspapers provide to their communities are not only numerous but also unique. No other mass communications medium comes close to providing the services local newspapers provide, and no other medium is closer to its community. If one could attach a value to those services, the sum of the funds expended yearly on the revenue forgone appropriation for the in-county rate would pale in comparison to that value.

Publishers who use the in-county rate are primarily those who focus on local concerns, and the in-county rate may be used only to reach local subscribers. Further, the in-county rate is used only by small publications since it is generally limited to publications which have more than half of their circulation within the county of publication.[2] The in-county rate is generally not used by large urban newspapers, which are usually delivered by carrier and not through the mail.

Raising postal rates for small newspapers forces those newspapers to cut back on their services. Every time one of them is forced to cut editorial services (or in the worst case scenario, to stop publication completely) a community loses a voice, an information source, and a vital socio-cultural link that holds the community together.

B. Newspapers' Contributions to the Community

Since colonial times, Congress has recognized the vital role that local newspapers

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[2]The in-county rate may also be used by any publication under 10,000 paid circulation.

play in providing a foundation for their communities. In the years America was first being settled, newspapers were a civilizing influence in the nation. Like the post office and the general store, the local newspaper gave area residents a sense of belonging to a recognized group. In rural areas where people could not keep in close contact with their neighbors, newspapers provided news of births, deaths and marriages.

This has not changed in most of the country, despite the proliferation of the electronic media, for there is no electronic equivalent of the community newspaper, and no other media provide the same type of information.

Community newspapers serve as town bulletin boards and as a socio-cultural adhesive in their community. Public service groups such as the Red Cross rely on local newspapers to announce times and locations for health screenings, blood donations, and other gatherings. Social service agencies use the newspaper to alert area residents about the services available to them. Local chapters of civic organizations such as the Kiwanis and Lions' Club use the newspaper to announce meetings and fund-raising drives, as do self-help groups like Alcoholics Anonymous. Residents rely on the community newspaper to provide them with information about school schedules and bus routes, proposed town construction projects and similar information that significantly affects their daily lives.

The community newspaper also contributes to the literacy of our nation. During the early years of our country's development, newspapers were often the only home source of reading material other than the Bible. Writers like Mark Twain began their literary careers by writing for local newspapers. Today, local newspapers still recognize their responsibility to support literacy efforts and many provide newspapers and other teaching aids to their local schools free of charge.

Community newspapers give teeth to state and local open meetings laws by publishing schedules of town, county and school board meetings and printing reports of those meetings after they are held. If local newspapers were unable to provide this service, no regional paper would do so because those meetings would not be of sufficient concern to residents outside the community to merit space in the larger newspaper despite the fact that the information is vital to the proper functioning of that local community.

Regional newspapers would also be unlikely to carry detailed information about a small town's bond issues, tax proposals and election campaigns. Voters would have be forced to make important choices for their communities with little information. Local newspapers not only provide information about such issues in articles but also provide a forum for area residents to discuss these issues through its editorial pages.

Federal, state and local governments require the publication of various public or legal notices in area newspapers. In many parts of the country, those requirements can only be met by publication in the community newspapers that use the in-county rate. If these newspapers are forced to pay higher postal costs, and to raise their advertising rates to pay for them, the end result in many states will be that governments will have to pay more for their legal notices.

Cutting revenue forgone appropriations injures more than a local business; it affects the entire community which the newspaper serves. Area residents obtain less information about the services available to them. Charities and service groups have fewer opportunities to publicize their fundraising events. Local governments have less oversight from voters. Area merchants lose their best advertising forum. High school sports teams no longer have a place willing to publish the scores of their games. There is no place for features about the local student who won a prize at the science fair or the sixth-graders who cleaned up an area

park. None of these things are newsworthy to residents of other communities, only to the people in that community.

C. Effect on Newspapers of Losing the In-County Rate

If revenue forgone were eliminated as the Reagan Administration originally proposed, second-class in-county postal rates would go up significantly. Even a freeze at FY 1989 levels means an increase higher than that contemplated by the existing statutory structure.

If newspapers are forced to pay higher rates, many will have to reduce their editorial services and cut down on coverage of local events. Others will be forced--if they can--to raise subscription rates, an action which harms poor subscribers and those on fixed incomes disproportionately. Some newspapers might even be forced to close their doors.

There are fewer and fewer independently-owned newspapers in small communities. This is because the costs of serving small towns are greater than the costs of serving larger ones, and the economies of scale and scope available to larger newspaper groups help counter those higher costs. Increasing postal rates would exacerbate that trend.

Each new rate increase brings with it the very real threat of more newspapers selling out to chains or closing their doors completely. Some members of these Subcommittees may remember Gary and Helen Sosnicki, former publishers of the Humansville Star Leader in Humansville, Missouri, who submitted revenue forgone testimony before the Subcommittee on Postal Operations and Services in 1983. In 1986, they were forced to sell their newspaper in part because they could no longer afford to pay postal increases and could not pass those increases on to their customers.

Like the Sosnickis, many of our members are family publishers. Some have two or three generations working together on their community newspaper. They work long, hard hours getting the paper out. For them, it is more than just a family business. It is a way to contribute to the life of their community.

When these small, independently-owned newspapers cut back or go under, the community loses more than just a voice, it loses its voice.

Thank you for considering our views on these issues.

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